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MISSION BAY DEVELOPMENT

AGENDAS AND BUDGET ANALYST MEMORANDA

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CALENDAR FOR WORKSHOPS & HEARINGS

SELECT COMMITTEE ON MISSION BAY DEVELOPMENT

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CITY AND COUNTY OF SAN FRANCISCO

MEMBERS: SUPERVISORS HONGISTO, GONZALEZ, ALIOTO, HSIEH AND WARD

CLERK: JONI LANDRY

NOTE: MEETINGS WILL TAKE PLACE IN THE LEGISLATIVE CHAMBER AT 2:00 P.M. ON THE DAYS INDICATED BELOW.

THURSDAY, OCTOBER 4, 1990

1. Introduction of Committee Members.

2. Overview of Committee calendar and statement of purpose.

3. Overview of the Mission Bay Development Project.

   Presentation by:
   Alec Bash, Project Director, Department of City Planning

4. Overview of Legal Authority and Responsibilities of the Board of Supervisors.

   Presentation by:
   Noreen Ambrose, Deputy City Attorney

5. Workshop on Open Space, Wetlands, Parks, Toxics, Transportation, and EIR Monitoring.

   Presentations by:
   Representatives for Mission Bay Clearinghouse
   Alec Bash, Project Director, City Planning Department
   Representatives for Catellus Development

6. Public Comment

THURSDAY, OCTOBER 11, 1990

1. Workshop on Employment, Economic Development and Housing.

   Presentations by:
   Brad Paul, Deputy Mayor for Housing
   Alec Bash, Project Director, City Planning Department
   Representatives for Community Development Council, Mission Bay Clearinghouse
   Representatives for Mission Bay Consortium
   Representatives for Catellus Development Corporation

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2. Public Comment

THURSDAY, OCTOBER 18, 1990

1. Workshop on Community Facilities, Child Care and Culture.

   Presentations by:
   Alec Bash, Project Director, Department of City Planning
   Representatives from Mission Bay Clearinghouse
   Representatives for Catellus Development Corporation

2. Public Comment

THURSDAY, OCTOBER 25, 1990

1. Workshop on Phasing and Start Dates for Project, Contractual Obligations Between City and Developer, Assessment Values, and Finances.

   Presentations by:
   Kenneth Taymor & Noreen Ambrose, Deputy City Attorneys
   Alec Bash, Project Director, Department of City Planning
   Representatives for Mission Bay Clearinghouse
   Representatives for Catellus Development Corporation

2. Public Comment

THURSDAY, NOVEMBER 1, 1990

1. Public Hearings on Mission Bay Development Agreement.

2. Public Comment

SELECT COMMITTEE ON MISSION BAY DEVELOPMENT
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TO: Select Committee on Mission Bay Development

FROM: Budget Analyst Recommendations

SUBJECT: October 4, 1990 Select Committee on Mission Bay Development Meeting

The following report is our preliminary analysis of the Mission Bay Development Agreement between Catellus Development Corporation and the City and County of San Francisco. This report is intended to provide background information concerning the development agreement and provide an initial analysis of the financial costs and benefits of entering into this agreement for the first hearing of the Mission Bay Special Committee. This report will be updated and revised, as necessary, for those meetings of the Mission Bay Special Committee specifically scheduled to analyze the financial impact to the City of the Mission Bay Development Agreement. All dollar figures quoted in this report, unless otherwise noted, are in current, 1990 dollars.

Our report is organized into six sections as follows:

Section I: Introduction and General Provisions of Development Agreement

Section II: Analysis Of Mission Bay Development Agreement Housing Program

Section III: Cost and Revenue Effect on City Budget

Section IV: Hazardous Materials Remediation Costs

Section V: City's Annual Review of Mission Bay Project

Section VI: Preliminary Recommendations

Section I: Introduction and General Provisions of Development Agreement

According to the provisions of Chapter 56 of the Administrative Code, the Board of Supervisors is delegated the authority to approve the Mission Bay Development Agreement between the City and Catellus Development Corporation. The Mission Bay Project, which has been characterized as the largest development in San Francisco history, would develop a new neighborhood on a 315 acre parcel of former railroad and shipping yards. Pending approval of certain agreements and the investigation and, where necessary, the remediation of hazardous materials, commercial and residential development would likely commence by January 1, 1992 and continue for an unspecified period of between 20 and 30 years. Important elements of the Mission Bay Development Plan include:

- 4.8 million square feet of commercial office space.
- 900,000 square feet of commercial/light industrial space.
- 750,000 square feet of retail space
- A 500-room, 400,000 square foot hotel
- At least 8,200 on-site housing units of which 3,000 would be affordable, on-site units plus a commitment from Catellus to provide funds to renovate 250 affordable off-site units. All of the housing units will be multi-family housing.
- Community facilities including fire and police stations, recreation and cultural centers and a school.
- Approximately 70 acres of open space and parks which include 12 acres of wetlands along San Francisco Bay.

The costs of developing the infrastructure and providing the facilities listed above for the Mission Bay Project (exclusive of the housing construction and subsidy costs) are estimated at approximately $298.3 million. Of that sum, approximately $230 million would be provided by Catellus, $63 million would be provided through grants and other Federal and State Agencies and the City would be obligated to provide $5.3 million. Additionally, Catellus has pledged an initial $30 million for hazardous waste investigation and remediation.

In order for Catellus and the City to proceed with the current Mission Bay Project, the voters must approve Proposition I on the November 6, 1990 ballot which would exclude Catellus from Proposition M. Proposition M places an annual limit of 950,000 square feet of new office space which may be approved. Since the Mission Bay Project calls for 4.8 million square feet of commercial office space, without the exclusion from the provision of Proposition M, Catellus would have to go through the annual process of receiving authorization to build new office space which could significantly slow the pace of commercial development.

This would then slow Catellus' provision of space for affordable housing, community facilities and parks.

According to Mr. Alec Bash of the Planning Department, it is not likely that Catellus will obtain the necessary agreements and complete the required investigation and remediation of hazardous waste before the end of 1991. Our analysis has assumed that development will begin in 1992 and that the first significant revenues and costs to the City will occur in Fiscal Year 1992-93. Development will occur over a 20 to 30 year period and our analysis examines the estimated fiscal costs and benefits for the next 30 years.

The proposed Development Agreement has significant fiscal implications for the City. Revenues would be generated through additional taxes, primarily property taxes assessed on the new commercial and residential development. The City would incur expenditures through the additional City services that must be provided to the new neighborhood, including expenditures for half the construction costs of a new police station (with Catellus to pay the other half). The most significant cost to the City of entering into the Development Agreement would be the subsidy that the City would provide for the construction of 2,200 affordable housing units, estimated to cost $150 million net of Federal and State subsidies.

Section II: Analysis Of Mission Bay Development Agreement Housing Program

The Development Agreement is designed to produce at least 8,200 units of on-site affordable and market rate housing during the course of the project. Additionally, Catellus would provide funds for the rehabilitation of 250 affordable off-site units. The breakdown of these units is shown in the table below.

Table 1
Allocation of Catellus and City Housing Units

Catellus Share of Housing	
Market Rate Units	5,200
Affordable Units	950 *
Subtotal Catellus	6,150
City Share of Housing	
Affordable Units	2,300
Total Housing Units	8,450

* Includes 700 units on-site and 250 off-site.

The City's share of affordable housing units includes 100 units subsidized by Catellus but built by the City. Catellus' 250 off-site units are specifically designated for the rehabilitation of residential hotels for which Catellus will contribute $4 million.

The production of housing will be tied to the production of commercial development, with one housing unit (including a proportionate amount of Catellus and City affordable housing units) being produced for each 712 feet of commercial development. The Development Agreement requires Catellus to begin construction of housing within five years of the Project start date and for 2,000 units of housing, of which no less than 740 will be affordable, to be completed no later then ten years after the start date. The delivery of the City's 26 acre affordable housing development site would be accelerated after Catellus acquires the right to remove the I-280 Freeway stub so that the City receives at least two acres every four years. Once the site currently occupied by the CalTrain station becomes available to Catellus for office development, the rate of housing site delivery would then be increased to at least four acres every four years.

Catellus Affordable Units

Catellus is to build 700 on-site affordable housing units, exclusive of the 250 affordable off-site units and the 100 affordable units to be built by the City but subsidized by Catellus. Of these 700 units, Catellus has agreed to provide 250 units for those earning 120 percent of median income, 150 units for those earning 100 percent of median income and 300 units for those earning 75 percent of median income. These subsidies are contingent on the City agreeing to use its best efforts to obtain public and private grant funds to pay for development of the wetlands to be included as part of the Project. Catellus would also agree to increase its subsidies for those 700 units, to provide 350 on-site units at 100 percent of median income and 350 on-site units at 75 percent for the total 700 on-site units if, within seven years after the start date of the Project, the necessary authorizations for the removal of the CalTrain Station located within the Mission Bay area have been received.

Using the subsidy costs calculated in this report to determine the amount of the City's subsidy, similar figures can be calculated to determine the amount of Catellus' housing subsidy (assuming Catellus' development costs are similar to that of the City's development costs). The subsidy for 250 units at 120 percent of the median income, 150 units at 100 percent and 300 units at 75 percent would be approximately $29 million while the subsidy for 350 units at 100 percent of the median income and 350 units at 75 percent would be approximately $35.6 million. When the $4 million subsidy for 250 residential units and the approximately $11 million subsidy for 100 rental units at 50 percent of the median income (calculated below) are added, Catellus' total housing subsidy ranges from $44 million to $50.6 million, exclusive of its costs of providing the City with land remediated of hazardous materials and with infrastructure in place.

City's Affordable Units

The City will develop its housing on numerous sites totalling 26 acres and will receive this land from Catellus with hazardous waste remediation complete and infrastructure in place. All of the housing will be multi-family housing. The units to be built by the City will range in size from studios to four bedroom apartments. The units will be targeted to be affordable for those earning from 50 percent of the median income to 120 percent of the median income. The Mayor's Office of Housing has estimated that there would be a mix of 50 percent rental units and 50 percent ownership. Based on this mix of apartment sizes, level of affordable income, and rental and home ownership units, the Mayor's Office of Housing has estimated the allocation of units as listed in Table 2 below. Although there are certain conditions framing this allocation of housing units (such as the 50 percent of median income units being limited for rent and not ownership), this breakdown of units has been acknowledged by the Mayor's Office of Housing as being simply an approximation of what the final housing mix could be. The Budget Analyst has analyzed the assumptions governing this allocation and has found them valid and useful as a basis for calculating the City's required fiscal subsidy.

Table 2
Distribution of City Affordable Housing Units

	Rental Units			Ownership Units				
Unit	Affordable Income Level			Affordable Income Level				Total All
Size	50%*	75%*	Subtotal	75%*	100%*	120%*	Subtotal	Units
Studio	252	77	329	0	0	0	0	329
1 Bedrm.	133	43	176	45	37	90	172	348
2 Bedrm.	126	62	188	74	62	149	285	473
3 Bedrm.	231	135	366	144	120	290	554	920
4 Bedrm.	57	34	91	36	30	73	139	230
Total	799	351	1,150	299	249	602	1,150	2,300

* Percent of the median income

Of the rental units listed above, 200 would be reserved for elderly tenants. 100 units of the 50 percent of the median income rental category units would be built by the City but subsidized by Catellus.

The City's subsidy for these 2,200 units (subtracting the 100 units to be built by the City but subsidized by Catellus) can be calculated by comparing the estimated development costs for each unit with the mortgage costs supportable by each income level for each type of unit. These supportable mortgage amounts have been calculated based on a certain percentage of income being available for housing costs plus making adjustments for operating or homeowner costs. The average sales prices and average rents, by income category, are shown in Table 3 below. The median income for a family of four in San Francisco as calculated by the U.S. Department of Housing and Urban Development is $45,600 as of March 5, 1990.

Table 3
Average Rents and Sale Prices per Income Category

	Average Rent		Average Sales Price		
Unit Size	50% Median	75% Median	75% Median	100%Median	120% Media
Studio	$400	$600	$43,408	$68,602	$86,693
1 Bedrm.	$458	$683	$56,045	$79,291	$99,956
2 Bedrm.	$517	$767	$63,079	$89,230	$112,479
3 Bedrm.	$567	$858	$69,333	$98,427	$124,261
4 Bedrm.	$608	$908	$72,048	$103,092	$130,065

Using these average rents and sales prices, the amount of the City's subsidy can be calculated. Table 4 below shows the total subsidy and per unit subsidy for the City housing units.

Table 4
Calculation of City Housing Subsidy

Rental Units	Studio	1 Bedrm.	2 Bedrm.	3 Bedrm.	4 Bedrm.
50% of Median Income					
# of Units	252	133	126	231	57
Subsidy/Unit	$77,315	$98,745	$112,875	$142,992	$177,543
Total Subsidy	$19,483,380	$13,133,085	$14,222,250	$33,031,152	$10,119,951
Subtotal All 50% Units		$89,989,818			
Less Catellus Share		($11,248,727)*			
Net City Subsidy		$78,741,091			

* Catellus will provide subsidy for 100 units at 50 percent of median income. Catellus subsidy calculated as 12.5 percent (1/8) of the 800 units to be built in this category.

Table 4 (continued)
Calculation of City Housing Subsidy

	Studio	1 Bedrm.	2 Bedrm.	3 Bedrm.	4 Bedrm.
75% of Median Income					
# of Units	77	43	62	135	34
Subsidy/Unit	$56,664	$75,315	$85,626	$110,545	$143,468
Total City Subsidy	$4,363,128	$3,238,545	$5,308,812	$14,923,575	$4,877,912
Subtotal All 75% Units		$32,711,972			
Total City Rental Unit Subsidy		$111,453,063			
Ownership Units					
75% of Median Income					
# of Units	None	45	74	144	36
Subsidy/Unit	None	$57,705	$68,671	$95,667	$130,452
Total City Subsidy	None	$2,596,725	$5,081,654	$13,776,048	$4,696,272
Subtotal All 75% Units		$26,150,699			
100% of Median Income					
# of Units	None	37	62	120	30
Subsidy/Unit	None	$34,459	$42,520	$66,573	$99,408
Total City Subsidy	None	$1,274,983	$2,636,240	$7,988,760	$2,982,240
Subtotal All 100% Units		$14,882,223			
	Studio	1 Bedrm.	2 Bedrm.	3 Bedrm.	4 Bedrm.
120% of Median Income					
# of Units	None	90	149	290	73
Subsidy/Unit	None	$13,794	$19,270	$40,739	$71,895
Total Subsidy	None	$1,241,460	$2,871,230	$11,814,310	$5,248,335
Subtotal All 120% Units		$21,175,335			
Total City Ownership Units Sub.		$62,208,257			
Total City Subsidy		**$173,661,320**			

The total subsidy that the City must provide would occur over the life of the development agreement and depend upon the rate of actual development by Catellus and the City. As shown above, approximately 64 percent ($111.4 million of $173.7 million) of the subsidy costs would go to rental units and approximately 36 percent ($62.2 million of $173.7 million) to the ownership units. It should also be

noted that the subsidy of $78.7 million for the 50 percent of median income rental units accounts for approximately 45 percent ($78.7 million of $173.7 million) of the entire subsidy of $173.7 million.

A different mix of housing between the various income, size and ownership or rental categories would change the amount of the City's subsidy. The subsidy for the rental units is greater than those for the ownership units and if the 50-50 mix of rental and ownership were changed towards greater ownership of units, the amount of the City's subsidy would decrease. For example, if only 40 percent of the units were rental and 60 percent were owned and these changes were made proportionately across the different unit size and affordable income categories, then the total subsidy would be reduced by $5.4 million from $173.7 million to $168.3 million. This amount could be offset to a certain degree, given that there are higher levels of Federal and State subsidies available for rental units. The City subsidy could also be reduced by building smaller units or targeting the units to a higher percentage of the median income (i.e., build more units for those at 100 percent of the median income instead of 50 percent).

The allocation of housing units presented above provides an overall deeper level of subsidies then contained in earlier versions of the proposed Development Agreement. Because of this "deepening" of the affordable income levels of Mission Bay housing, the Mayor's Office of Housing has estimated that the City would receive between $20-30 million over the life of the project in Federal or State grant funds. These potential Federal and State funds are estimated based on the increased number of units that would be affordable to those earning 80 percent of the median income or below. If the subsidy were to be deepened further for those rental units targeted at 50 percent of median income, to, on average, below 50 percent of the median income, additional subsidies would have to be provided. For example, if the overall average for 50 percent of the median income affordable rental units was reduced to 40 percent of the median income, then an additional $6 million in subsidies would be required. If grant funds could not be obtained for these additional subsidies, then the City would have to pay the additional costs.

As a condition of the Development Agreement, Catellus has agreed to pay $4 million to the City for the rehabilitation of 250 off-site residential hotel units. This would equal $16,000 per unit. According to the Mayor's Office of Housing a realistic current estimate of the cost of remodeling each residential hotel unit is $25,000 or a total of $6,250,000. Ms. Barbara Smith of the Mayor's Office of Housing states that the $2,250,000 balance ($6,250,000 cost less $4,000,000 Catellus subsidy) to renovate the residential hotel units would likely be available from State grant funds for the retrofitting of buildings. However, if these State grant funds are not available, the City would have to assume the additional $2,250,000 in costs. Catellus will pay their $4 million in two $2 million installments during the initial phases of the Project.

Financing of City Subsidy

Assuming that the Mayor's Office of Housing is able to obtain the $20 to $30 million of Federal and State grant funds towards the total subsidy of $173.7 million for the cost of the City's Housing Subsidy Program, the net cost to the City would be between $143.7 million to $153.7 million. If $150 million is assumed to be the estimate of the City's cost of the Program subsidy and the length of the Program is 30 years, then $5 million a year would be required in City funds. A number of sources of these funds have been suggested by the Mayor' Office of Housing and the Planning Commission including:

- Increase in the Real Property Transfer Tax
- Increase in the Hotel Tax
- Bond measure
- Annual appropriation from the City's General Fund

Proposition J on the November 6, 1990 ballot, if passed by the voters, would make it City policy to provide $15 million annually for a Housing Affordability Fund, of which $5 million would be available for Mission Bay. The proposed funding sources mentioned above are all possible sources for the City's cost of its housing subsidy.

Real Property Transfer Tax

The Budget Analyst previously prepared a report analyzing what increase in the real property transfer tax would be needed to raise $15 million annually. Our report concluded that the real property tax rate would have to increase by approximately 49 percent from the current $2.50 per $500 consideration of value to $3.73 per $500 consideration of value. This assumes that the rate increase would be combined with the deletion of the exemption for assumed indebtedness. A proposed ordinance to increase the Real Property Transfer Tax rate by this amount with the deletion of the exemption for assumed indebtedness was rejected by the Board of Supervisors on September 17, 1990. Other proposed ordinances are expected to be heard by the Board of Supervisors, including a proposal before the October 3, 1990 Finance Committee to delete the exemption for assumed indebtedness, that would increase real property transfer tax revenues by approximately $3.15 million annually. If the Board of Supervisors desires to increase the real property tax rate to provide the $5 million of funds only for the City's Mission Bay housing subsidy, the rate would need to be increased by $0.60 from $2.50 to $3.10 for each $500 of consideration of value maintaining the exemption for assumed indebtedness and by $0.20 from $2.50 to $2.70 for each $500 of consideration of value, if the exemption were deleted.

Hotel Tax

The City's Hotel Tax is currently 11 percent. Of the eight percent portion of the total 11 percent tax rate that goes to the Hotel Tax Fund, 6.23 percent less $60,000 goes to low income housing development plus another additional flat sum of $100,000 is allocated for low income housing. In the Fiscal Year 1990-91 budget, these two sources are estimated to receive $3,113,465. The Budget Analyst has previously estimated that each one percent increase in the overall Hotel Tax generates an estimated $6,166,663 annually. It would not be practical to increase the Hotel Tax to fund the City's Mission Bay Housing Program alone through the Hotel Tax Funds that are allocated to low income housing because the tax rate would have to increase by more than 150 percent from 11 percent to over 27 percent. However, to provide funds for affordable housing through a simple increase in the 11 percent Hotel Tax, given that each additional one percent increase in the Hotel Tax would raise $6,166,663, the Hotel Tax rate would need to be increased by approximately .8 (.008) percent to raise the $5 million annual subsidy for the City's Mission Bay housing program or by approximately 2.4 percent to raise the $15 million for the Housing Affordability Fund. The Board of Supervisors is currently considering a proposal that would place a two percent General Fund surcharge on the Hotel Tax to raise the rate from 11 percent to 13 percent.

Bond Measure

Ms. Smith reports that the Mayor's Office of Housing is not currently pursuing a bond issue as an alternative for funding the City's Mission Bay housing subsidy. Ms. Smith adds that the Federal tax exempt requirements for general obligation bonds make it difficult to issue tax-exempt bonds for housing projects that are going to occur over extended periods of time and that taxable bonds are not necessarily the most efficient way to raise the funds for the City's subsidy.

Housing Program Administration

Under the terms of the Development Agreement, the Mayor's Office of Housing (or its successor) would administer the City's Mission Bay Housing Program. The Mayor's Office of Housing would have responsibility for:

- Reviewing the development of affordable housing units to assure compliance with the Development Agreement.

- Preparing an annual report on the status of the housing development which will report whether the goals in the financing and development plan are being met and identify the Mission Bay Housing Budget necessary to meet the goals of the financing and development plan in the succeeding two-year period.

- Selecting the developers for each housing site through preparation and distribution of RFQs and RFPs, reviewing Development Proposals, and exclusive negotiations for the purpose of entering into an agreement.

To assist the Mayor's Office of Housing in administering the Housing Program, the Mission Bay Housing Advisory Group would be established, consisting of City-funded non-profit housing corporations and representatives from appropriate City departments. Ms. Smith states that there would be additional annual costs of $30,000 for the Mayor's Office of Housing to manage the Mission Bay Project.

The Development Agreement specifies the steps the Mayor's Office of Housing must follow in developing the City's share of housing, assures the continued affordability of the housing units and sets other conditions regulating development for the City's housing units. If the Board of Supervisors approves the Development Agreement, the Mayor's Office of Housing would follow the provisions of the Agreement. The Board of Supervisors, however, would not approve the selection of individual developers for each individual housing project. This would be accomplished by the Mayor's Office of Housing.

Section III: Cost and Revenue Effect on City Budget

The Budget Analyst is still conducting an analysis of the costs and benefits that would accrue to the City if the Mission Bay Development Agreement is enacted. The following sections are our preliminary observations of the potential fiscal effects on the City's budget of entering the Agreement. The January 1990 financial evaluation of the Mission Bay Project conducted by Economic and Planning Systems, Inc., which details a significant number of City revenues and costs, was used as a reference source in conducting our analysis.

The overall costs and benefits of the Mission Bay Project indicate a positive net cash flow to the City over the length of the project, even when considering the $5 million annually that the City must contribute for thirty years for the housing subsidy. However, if we assume that the City will begin its $5 million annual affordable housing obligation in Fiscal Year 1992-93, net cash flow from the Project is likely to be negative for close to the first ten years as the Project development proceeds. It should also be noted that this analysis, extending for 30 years into the future, is speculative and based on economic conditions that could significantly change.

Project Revenues

The most significant source of Project revenues are property tax revenues that would accumulate to the City as land is developed and through appreciation of property that changes hands. Using land valuation rates considered conservative by the Assessor's Office and assuming an equal rate of development each year, the City would receive over $400 million in property tax revenues over the next 30 years. This sum would represent almost 65 percent of all the revenues that the City would receive from the Project. Other funds that the City would receive include other local taxes such as payroll and gross receipts taxes, State

subventions, licenses and fines and charges for current services. While our final analysis may not concur with all of these revenue sources included in the financial model, our preliminary conclusion is that most of these revenues should be considered reasonably secure.

Project Costs

Since most of the Project infrastructure and development costs are being paid for by Catellus, the City's financial obligations are limited to those incurred by City departments to provide services to the new residents and employees in the Project area. These costs have been estimated in the financial model at over $300 million for the next 30 years. A significant portion of these costs have been calculated using a per capita estimation of most City department costs and extrapolating those costs to the additional residents and employees that would be added to the City through the Project. For example, the Controller's budget for 1987-88 was used by Economic and Planning Systems Inc. for purposes of dividing that budget by the number of City employees and residents in order to obtain a per capita figure and then multiplied by the number of residents and employees estimated to have been added by the Project in a given year. For those departments that would experience substantial increased operating costs due to the Project, specifically Police, Fire, Public Works, Municipal Railway, Recreation and Parks and Planning, the per capita cost method was not used but direct operating costs were estimated based on services to be provided.

The Budget Analyst questions whether the per capita estimation method is an accurate measure to determine costs to City departments. Since the time that these estimates were made by Economic and Planning Systems Inc., using budget information for Fiscal Year 1987-88, the City's population has declined slightly while General Fund budget costs have increased approximately 15 percent. It is uncertain whether City department costs would increase proportionately for a slightly more than two percent increase in City population and a three percent increase in City employees over a 30-year period. The Budget Analyst is in the process of obtaining and verifying estimates from the City departments most likely to experience substantial cost increases from the Project - Police, Fire, Public Works, Municipal Railway, Recreation and Parks and Planning.

The Budget Analyst notes that the Planning Commission has approved several resolutions relating to the finances of the Mission Bay Project. These resolutions recognize that the City will receive a fiscal surplus from the Mission Bay Project and recommend that the Board of Supervisors allocate funds from these surpluses for affordable housing and economic development.

Section IV: Hazardous Materials Remediation Costs

Because of its long history as an industrial site, significant quantities of hazardous materials may be present in the Mission Bay Project area. The costs of cleaning up these materials may be substantial but until a detailed subsurface investigation of the site is completed, and any necessary remediation plans are proposed, such costs cannot be fairly estimated.

The cost of the investigation and remediation of hazardous materials in Mission Bay will be borne entirely by Catellus except for clean-up required for China Basin Channel sediment and certain Port property. The Development Agreement requires that Catellus investigate and remediate hazardous materials prior to the initiation of any development. This requirement means that all City housing sites, parks, and community facilities would be given to the City adequately remediated for the intended use. Catellus' site investigation and remediation plans for each site within Mission Bay must be approved by the State regulatory agency with jurisdication over the clean-up. To secure Catellus' promise to perform, Catellus has agreed to obtain financial security prior to initiating the work in the sum of $30 million.

The City will share equally the investigation and remediation costs with Catellus, if necessary, in the case of China Basin Channel and the property occupied by H&H Ship Service Company. Although no definitive study of the Channel has been done, it is likely, given previous uses of the Channel, that hazardous materials are present in the sediments in the Channel. According to Ms. Elaine Warren of the City Attorney's Office, State Legislation requiring the San Francisco Bay Area Region Water Quality Control Board to set standards for San Francisco Bay sediment and identify areas needing remediation makes it likely that at some point in the future the City will be directed to investigate and, if necessary, remediate Channel sediment. If this does occur, the costs would be shared by the City and Catellus. Ms. Warren adds that Catellus' agreement to pay half the Channel clean-up costs only relates to the sediments in the Channel and not water quality. If the City is forced to clean-up the Channel because of issues related to water quality, then the City would have to pay the full costs.

Provided that, for whatever reason, H&H Ship Service Company does not perform all required remediation of its leased property, the responsibility for cleaning-up hazardous materials will be split equally between the City and Catellus, assuming that H&H Company vacates the site it presently occupies. According to Ms. Warren, H&H Company may continue to occupy some of its current space. If this occurs, the costs of clean-up may be renegotiated by Catellus and the City.

No cost estimates have been developed for the cost of investigating and remediating the China Basin Channel or the H&H Company parcel. Ms. Warren reports that the City's share of costs for Channel sediment remediation would likely be shared by the City's General Fund and the Port of San Francisco, although the actual percentages to be paid by each party have not been determined. Clean-up costs associated with the H&H Company parcels would be borne by the Port. The City as well as Catellus both retain their right to attempt to recover the costs of the clean-up from any other legally responsible firms that can be identified as having disposed of the wastes present at the Mission Bay site.

Section V: City's Annual Review of Mission Bay Project

Under the terms of the Development Agreement, by October 1 of each year the Chief Administrative Officer and the Planning Director shall notify the Mayor and the head of each City department affected by the Mission Bay Project of the activity that is expected during the upcoming year that will generate fees or costs. Each department would then have to include in its budget the projected financial and staffing needs related to implementation of the project. The Mayor's Office would then provide a summary annual report detailing how budget needs specifically arising from the Mission Bay project are being addressed. As mentioned above, the Mayor's Office of Housing would also provide a separate annual report on the status of the housing development including the budget for the succeeding two-year period.

The Chief Administrative Officer and the Director of the Planning Commission would also annually review Catellus' compliance with the terms of the Development Agreement. The Board of Supervisors has the authority to request a hearing on whether Catellus should be granted a certificate of compliance. If the CAO and the Planning Commission determine that Catellus is not in compliance and initiate steps to terminate the agreement, then the Board of Supervisors would have the final authority to terminate the agreement. The Development Agreement has been amended so that that annual review of Catellus' compliance with the agreement will be coordinated with the City's budget process as opposed to the anniversary date of the execution of the Development Agreement. This would allow information generated by the annual review to be included in the review of City budgetary impacts.

The Development Agreement is structured to allow changes to the agreement if such changes are considered appropriate by the City and Catellus. "Major amendments" to the agreement would be subject to approval by the Board of Supervisors. "Minor changes" to the agreement, which would be accomplished through written Operating Memoranda, would not be subject to approval by the Board of Supervisors but any member of the Board of Supervisors would be given an opportunity to request a hearing on the proposed Operating Memoranda.

Section VI: Preliminary Recommendations

As stated at the beginning of this report, the Budget Analyst will update and revise this report, as necessary, during the course of the hearings being conducted by the Mission Bay Special Committee. Specifically, additional information will be provided on the estimated costs and benefits to the City of entering into the Mission Bay Development Agreement.

We will make recommendations to the Board of Supervisors on the provisions of the Development Agreement when the Board of Supervisors considers actual legislation to approve the Agreement. At this time, we have two preliminary recommendations. The Budget Analyst recommends that the Board of Supervisors be granted authority to review the specific development agreements to be awarded by the Mayor's Office of Housing for construction of the City's share

of affordable housing units. The total cost of the constructing the City's housing share will total over $300 million and the City subsidy will be $173.6 million. The Budget Analyst believes the Board of Supervisors should have greater oversight of the expenditure of these funds then simply approving the provisions of the Mission Bay Development Agreement and approving the annual Housing Program budget submitted by the Mayor's Office of Housing.

The Budget Analyst also recommends that the Development Agreement be amended to require approval of the Board of Supervisors of any proposed written Operating Memoranda. Even though these Operating Memoranda are not intended to result in significant changes to the Development Agreement, the Budget Analyst believes the Board of Supervisors should be given the authority to review and approve these Operating Memoranda before they are enacted. Mr. Bash does not concur with this preliminary recommendation because he states that the Operating Memoranda are intended to be minor and technical in nature and requiring approval by the Board of Supervisors would limit the City's ability to make minor adjustments to the Development Agreement.

Harvey M. Rose

cc: Supervisor Hongisto
Supervisor Gonzalez
Supervisor Alioto
Supervisor Hsieh
Supervisor Ward
President Britt
Supervisor Hallinan
Supervisor Kennedy
Supervisor Maher
Supervisor Nelder
Supervisor Walker
Clerk of the Board
Legislative Policy Analyst
Chief Administrative Officer
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Carol Wilkins
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REVISED CALENDAR

SELECT COMMITTEE ON MISSION BAY DEVELOPMENT

BOARD OF SUPERVISORS

CITY AND COUNTY OF SAN FRANCISCO

Thursday, October 18, 1990 - 2:00 p.m. Legislative Chamber, 2nd Floor, City Hall

Members: Supervisors Hongisto, Gonzalez, Alioto, Hsieh and Ward

Clerk: Joni Landry

1. Workshop on Open Space, Wetlands, Parks, Toxics, Transportation, and EIR Monitoring.

   Presentations by:
   Representatives for Mission Bay Clearinghouse
   Alec Bash, Project Director, City Planning Department
   Representatives for Catellus Development

2. Public Comment

   (Continued from October 4, 1990)

NEW BUSINESS

3. Workshop on Employment, Economic Development and Housing.

   Presentations by:
   Brad Paul, Deputy Mayor for Housing
   Alec Bash, Project Director, City Planning Department
   Judith Klain, Commission on Status of Women
   Karen Goodson Pierce, Department of Social Services
   Representatives for Community Development Council, Mission Bay Clearinghouse
   Representatives for Mission Bay Consortium
   Representatives for Catellus Development Corporation

4. Public Comment

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CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

1390 Market Street, Suite 1025, San Francisco, CA 94102 (415)554-7642

October 16, 1990

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TO: Select Committee on Mission Bay Development

FROM: Budget Analyst - Recommendations

SUBJECT: October 18, 1990 Select Committee on Mission Bay Development Meeting

The following report is our analysis of the Mission Bay Development Agreement between Catellus Development Corporation and the City and County of San Francisco. This report is intended to provide background information concerning the development agreement and provide an initial analysis of the financial costs and benefits of entering into this agreement for the first hearing of the Mission Bay Special Committee. This report will be updated and revised, as necessary, for those meetings of the Mission Bay Special Committee specifically scheduled to analyze the financial impact to the City of the Mission Bay Development Agreement. All dollar figures quoted in this report, unless otherwise noted, are in current, 1990 dollars.

Our report is organized into six sections as follows:

Section I: Introduction and General Provisions of Development Agreement

Section II: Analysis Of Mission Bay Development Agreement Housing Program

Section III: Cost and Revenue Effect on City Budget

Section IV: Hazardous Materials Remediation Costs

Section V: City's Annual Review of Mission Bay Project

Section VI: Comments and Recommendation

Section I: Introduction and General Provisions of Development Agreement

According to the provisions of Chapter 56 of the Administrative Code, the Board of Supervisors is delegated the authority to approve the Mission Bay Development Agreement between the City and Catellus Development Corporation. The Mission Bay Project, which has been characterized as the largest development in San Francisco history, would develop a new neighborhood on a 315 acre parcel of former railroad and shipping yards. Pending approval of certain agreements and the investigation and, where necessary, the remediation of hazardous materials, commercial and residential development would likely commence by January 1, 1992 and continue for an unspecified period of between 20 and 30 years. Important elements of the Mission Bay Development Plan include:

- 4.8 million square feet of commercial office space.
- 900,000 square feet of commercial/light industrial space.
- 750,000 square feet of retail space
- A 500-room, 400,000 square foot hotel
- At least 8,200 on-site housing units of which 3,000 would be affordable, on-site units plus a commitment from Catellus to provide funds to renovate 250 affordable off-site units. All of the housing units will be multi-family housing.
- Community facilities including fire and police stations, recreation and cultural centers and a school.
- Approximately 70 acres of open space and parks which include 12 acres of wetlands along San Francisco Bay.

The costs of developing the infrastructure and providing the facilities listed above for the Mission Bay Project (exclusive of the housing construction and subsidy costs) are estimated at approximately $302.1 million. Of that sum, approximately $233.8 million would be provided by Catellus, $63 million would be provided through grants and other Federal and State Agencies and the City would be obligated to provide $5.3 million. Additionally, Catellus has pledged an initial $30 million for hazardous waste investigation and remediation.

In order for Catellus and the City to proceed with the current Mission Bay Project, the voters must approve Proposition I on the November 6, 1990 ballot which would exclude Catellus from Proposition M. Proposition M places an annual limit of 950,000 square feet of new office space which may be approved. Since the Mission Bay Project calls for 4.8 million square feet of commercial office space, without the exclusion from the provision of Proposition M, Catellus would have to go through the annual process of receiving authorization to build new office space which could significantly slow the pace of commercial development.

This would then slow Catellus' provision of space for affordable housing, community facilities and parks.

According to Mr. Alec Bash of the Planning Department, it is not likely that Catellus will obtain the necessary agreements and complete the required investigation and remediation of hazardous waste before the end of 1991. Our analysis has assumed that development will begin in 1992 and that the first significant revenues and costs to the City will occur in Fiscal Year 1992-93. Development will occur over a 20 to 30 year period and our analysis examines the estimated fiscal costs and benefits for the next 30 years.

The proposed Development Agreement has significant fiscal implications for the City. Revenues would be generated through additional taxes, primarily property taxes assessed on the new commercial and residential development. The City would incur expenditures through the additional City services that must be provided to the new neighborhood, including expenditures for half the construction costs of a new police station (with Catellus to pay the other half). The most significant cost to the City of entering into the Development Agreement would be the subsidy that the City would provide for the construction of 2,200 affordable housing units, estimated to cost $150 million net of Federal and State subsidies.

Section II: Analysis Of Mission Bay Development Agreement Housing Program

The Development Agreement is designed to produce at least 8,200 units of on-site affordable and market rate housing during the course of the project. Additionally, Catellus would provide funds for the rehabilitation of 250 affordable off-site units. The breakdown of these units is shown in the table below.

Table 1
Allocation of Catellus and City
Housing Units

Catellus Share of Housing	
Market Rate Units	5,200
Affordable Units	950 *
Subtotal Catellus	6,150
City Share of Housing	
Affordable Units	2,300
Total Housing Units	8,450

* Includes 700 units on-site and 250 off-site.

The City's share of affordable housing units includes 100 units subsidized by Catellus but built by the City. Catellus' 250 off-site units are specifically designated for the rehabilitation of residential hotels for which Catellus will contribute $4 million.

The production of housing will be tied to the production of commercial development, with one housing unit (including a proportionate amount of Catellus and City affordable housing units) being produced for each 712 feet of commercial development. The Development Agreement requires Catellus to begin construction of housing within five years of the Project start date and for 2,000 units of housing, of which no less than 740 will be affordable, to be completed no later then ten years after the start date. The delivery of the City's 26 acre affordable housing development site would be accelerated after Catellus acquires the right to remove the I-280 Freeway stub so that the City receives at least two acres every four years. Once the site currently occupied by the CalTrain station becomes available to Catellus for office development, the rate of housing site delivery would then be increased to at least four acres every four years.

Catellus Affordable Units

Catellus is to build 700 on-site affordable housing units, exclusive of the 250 affordable off-site units and the 100 affordable units to be built by the City but subsidized by Catellus. Of these 700 units, Catellus has agreed to provide 250 units for those earning 120 percent of median income, 150 units for those earning 100 percent of median income and 300 units for those earning 75 percent of median income. These subsidies are contingent on the City agreeing to use its best efforts to obtain public and private grant funds to pay for development of the wetlands to be included as part of the Project. Catellus would also agree to increase its subsidies for those 700 units, to provide 350 on-site units at 100 percent of median income and 350 on-site units at 75 percent for the total 700 on-site units if, within seven years after the start date of the Project, the necessary authorizations for the removal of the CalTrain Station located within the Mission Bay area have been received.

Using the subsidy costs calculated in this report to determine the amount of the City's subsidy, similar figures can be calculated to determine the amount of Catellus' housing subsidy (assuming Catellus' development costs are similar to that of the City's development costs). The subsidy for 250 units at 120 percent of the median income, 150 units at 100 percent and 300 units at 75 percent would be approximately $29 million while the subsidy for 350 units at 100 percent of the median income and 350 units at 75 percent would be approximately $35.6 million. When the $4 million subsidy for 250 residential units and the approximately $11 million subsidy for 100 rental units at 50 percent of the median income (calculated below) are added, Catellus' total housing subsidy ranges from $44 million to $50.6 million, exclusive of its costs of providing the City with land remediated of hazardous materials and with infrastructure in place.

City's Affordable Units

The City will develop its housing on numerous sites totalling 26 acres and will receive this land from Catellus with hazardous waste remediation complete and infrastructure in place. All of the housing will be multi-family housing. The units to be built by the City will range in size from studios to four bedroom apartments. The units will be targeted to be affordable for those earning from less than 50 percent of the median income to 120 percent of the median income (For the subsidy amounts calculated below, the less than 50 percent of median income subsidy was calculated assuming an average income of 45 percent of median income for those units). The Mayor's Office of Housing has estimated that there would be a mix of 50 percent rental units and 50 percent ownership. Based on this mix of apartment sizes, level of affordable income, and rental and home ownership units, the Mayor's Office of Housing has estimated the allocation of units as listed in Table 2 below. Although there are certain conditions framing this allocation of housing units (such as the less than 50 percent of median income units being limited for rent and not ownership), this breakdown of units has been acknowledged by the Mayor's Office of Housing as being simply an approximation of what the final housing mix could be. The Budget Analyst has analyzed the assumptions governing this allocation and has found them valid and useful as a basis for calculating the City's required fiscal subsidy.

Table 2
Distribution of City Affordable Housing Units

	Rental Units			Ownership Units				
Unit Size	Affordable Income Level <50%*	75%*	Subtotal	Affordable Income Level 75%*	100%*	120%*	Subtotal	Total All Units
Studio	252	77	329	0	0	0	0	329
1 Bedrm.	133	43	176	45	37	90	172	348
2 Bedrm.	126	62	188	74	62	149	285	473
3 Bedrm.	231	135	366	144	120	290	554	920
4 Bedrm.	57	34	91	36	30	73	139	230
Total	799	351	1,150	299	249	602	1,150	2,300

* Percent of the median income

Of the rental units listed above, 200 would be reserved for elderly tenants. 100 units of the less than 50 percent of the median income rental category units would be built by a developer selected by the City but subsidized by Catellus.

The City's subsidy for these 2,200 units (subtracting the 100 units to be built by the City but subsidized by Catellus) can be calculated by comparing the estimated development costs for each unit with the mortgage costs supportable by each income level for each type of unit. These supportable mortgage amounts have been calculated based on a certain percentage of income being available for housing costs plus making adjustments for operating or homeowner costs. The average sales prices and average rents, by income category, are shown in Table 3 below. The median income for a family of four in San Francisco as calculated by the U.S. Department of Housing and Urban Development is $45,600 as of March 5, 1990.

Table 3
Average Rents and Sale Prices per Income Category

	Average Rent		Average Sales Price		
Unit Size	50% Median	75% Median	75% Median	100%Median	120% Median
Studio	$400	$600	$43,408	$68,602	$86,693
1 Bedrm.	$458	$683	$56,045	$79,291	$99,956
2 Bedrm.	$517	$767	$63,079	$89,230	$112,479
3 Bedrm.	$567	$858	$69,333	$98,427	$124,261
4 Bedrm.	$608	$908	$72,048	$103,092	$130,065

Using these average rents and sales prices, the amount of the City's subsidy can be calculated. Table 4 below shows the total subsidy and per unit subsidy for the City housing units.

Table 4
Calculation of City Housing Subsidy

Rental Units	Studio	1 Bedrm.	2 Bedrm.	3 Bedrm.	4 Bedrm.
<50% of Median Income					
# of Units	252	133	126	231	57
Subsidy/Unit	$80,972	$102,983	$117,666	$148,244	$183,164
Total Subsidy	$20,404,944	$13,696,739	$14,825,916	$34,244,364	$10,440,348
Subtotal All <50% Units		$93,612,311			
Less Catellus Share		($11,701,539)*			
Net City Subsidy		$81,910,772			

* Catellus will provide subsidy for 100 units at less than 50 percent of median income. The Catellus subsidy is calculated as 12.5 percent (1/8) of the 800 units to be built in this category.

Table 4 (continued)
Calculation of City Housing Subsidy

	Studio	1 Bedrm.	2 Bedrm.	3 Bedrm.	4 Bedrm.
75% of Median Income					
# of Units	77	43	62	135	34
Subsidy/Unit	$56,664	$75,315	$85,626	$110,545	$143,468
Total City Subsidy	$4,363,128	$3,238,545	$5,308,812	$14,923,575	$4,877,912
Subtotal All 75% Units		$32,711,972			
Total City Rental Unit Subsidy		$114,622,744			
Ownership Units					
75% of Median Income					
# of Units	None	45	74	144	36
Subsidy/Unit	None	$57,705	$68,671	$95,667	$130,452
Total City Subsidy	None	$2,596,725	$5,081,654	$13,776,048	$4,696,272
Subtotal All 75% Units		$26,150,699			
100% of Median Income					
# of Units	None	37	62	120	30
Subsidy/Unit	None	$34,459	$42,520	$66,573	$99,408
Total City Subsidy	None	$1,274,983	$2,636,240	$7,988,760	$2,982,240
Subtotal All 100% Units		$14,882,223			

	Studio	1 Bedrm.	2 Bedrm.	3 Bedrm.	4 Bedrm.
120% of Median Income					
# of Units	None	90	149	290	73
Subsidy/Unit	None	$13,794	$19,270	$40,739	$71,895
Total Subsidy	None	$1,241,460	$2,871,230	$11,814,310	$5,248,335
Subtotal All 120% Units		$21,175,335			
Total City Ownership Units Sub.		$62,208,257			
Total City Subsidy		**$176,831,001**			

The total subsidy that the City must provide would occur over the life of the development agreement and depend upon the rate of actual development by Catellus and the City. As shown above, approximately 65 percent ($114.6 million of $176.8 million) of the subsidy costs would go to rental units and approximately 35 percent ($62.2 million of $176.8 million) to the ownership units. It should also be

noted that the subsidy of $81.9 million for the less than 50 percent of median income rental units accounts for approximately 46 percent ($81.9 million of $176.8 million) of the entire subsidy of $176.8 million.

A different mix of housing between the various income, size and ownership or rental categories would change the amount of the City's subsidy. The subsidy for the rental units is greater than those for the ownership units and if the 50-50 mix of rental and ownership were changed towards greater ownership of units, the amount of the City's subsidy would decrease. For example, if only 40 percent of the units were rental and 60 percent were owned and these changes were made proportionately across the different unit size and affordable income categories, then the total subsidy would be reduced by $5.5 million from $176.8 million to $171.3 million. This amount could be offset to a certain degree, given that there are higher levels of Federal and State subsidies available for rental units. The City subsidy could also be reduced by building smaller units or targeting the units to a higher percentage of the median income (i.e., build more units for those at 100 percent of the median income instead of less than 50 percent).

The allocation of housing units presented above provides an overall deeper level of subsidies then contained in earlier versions of the proposed Development Agreement. Because of this "deepening" of the affordable income levels of Mission Bay housing, the Mayor's Office of Housing has estimated that the City would receive between $20-30 million over the life of the project in Federal or State grant funds. These potential Federal and State funds are estimated based on the increased number of units that would be affordable to those earning 80 percent of the median income or below. If at a later stage in the implementation of the Development Agreement the subsidy for City housing units were to be deepened further, additional subsidies would have to be provided.

As a condition of the Development Agreement, Catellus has agreed to pay $4 million to the City for the rehabilitation of 250 off-site residential hotel units. This would equal $16,000 per unit. According to the Mayor's Office of Housing a realistic current estimate of the cost of remodeling each residential hotel unit is $25,000 or a total of $6,250,000. Ms. Barbara Smith of the Mayor's Office of Housing states that the $2,250,000 balance ($6,250,000 cost less $4,000,000 Catellus subsidy) to renovate the residential hotel units would likely be available from State grant funds for the retrofitting of buildings. However, if these State grant funds are not available, the City would have to assume the additional $2,250,000 in costs. Catellus will pay their $4 million in two $2 million installments during the initial phases of the Project.

Financing of City Subsidy

The total cost of developing the City's Mission Bay housing sites is $329 million. Approximately $140 million would be provided by the owners and renters of the units and approximately $12 million by Catellus as a subsidy for 100 rental units. The $176.8 balance (rounded at $177 million) in funds would be the amount to be covered from public sources. Assuming that the Mayor's Office of Housing is able to obtain the $20 to $30 million of Federal and State grant funds towards the total subsidy of $176.8 million for the cost of the City's Housing Subsidy Program, the net cost to the City would be between $146.8 million to $156.8 million. If $150 million is assumed to be the estimate of the City's cost of the Program subsidy and the length of the Program is 30 years, then $5 million a year would be required in City funds. A number of sources of these funds have been suggested by the Mayor' Office of Housing and the Planning Commission including:

- Increase in the Real Property Transfer Tax
- Increase in the Hotel Tax
- Bond measure
- Annual appropriation from the City's General Fund

Proposition J on the November 6, 1990 ballot, if passed by the voters, would make it City policy to provide $15 million annually for a Housing Affordability Fund, of which $5 million would be available for Mission Bay. The proposed funding sources mentioned above are all possible sources for the City's cost of its housing subsidy.

Real Property Transfer Tax

The Budget Analyst previously prepared a report analyzing what increase in the real property transfer tax would be needed to raise $15 million annually. Our report concluded that the real property tax rate would have to increase by approximately 49 percent from the current $2.50 per $500 consideration of value to $3.73 per $500 consideration of value. This assumes that the rate increase would be combined with the deletion of the exemption for assumed indebtedness. A proposed ordinance to increase the Real Property Transfer Tax rate by this amount with the deletion of the exemption for assumed indebtedness was rejected by the Board of Supervisors on September 17, 1990. However, on October 15, 1990 the Board of Supervisors approved an ordinance to delete the provision for assumed indebtness.

There are currently other proposed ordinances before the Board of Supervisors that would increase the real property tax rate. How much the tax rate would need to be increased to specifically raise $5 million annually for Mission Bay Housing would depend on the actual rate at the time of the proposed increase and the amount of revenues the real property tax rate was currently raising.

Hotel Tax

The City's Hotel Tax is currently 11 percent. Of the eight percent portion of the total 11 percent tax rate that goes to the Hotel Tax Fund, 6.23 percent less $60,000 goes to low income housing development plus another additional flat sum of $100,000 is allocated for low income housing. In the Fiscal Year 1990-91 budget, these two sources are estimated to receive $3,113,465. The Budget Analyst has previously estimated that each one percent increase in the overall Hotel Tax generates an estimated $6,166,663 annually. It would not be practical to increase the Hotel Tax to fund the City's Mission Bay Housing Program alone through the Hotel Tax Funds that are allocated to low income housing because the tax rate would have to increase by more than 150 percent from 11 percent to over 27 percent and these funds are limited to providing low cost housing for senior citizens. However, to provide funds for affordable housing through a simple increase in the 11 percent Hotel Tax, given that each additional one percent increase in the Hotel Tax would raise $6,166,663, the Hotel Tax rate would need to be increased by approximately .8 (.008) percent to raise the $5 million annual subsidy for the City's Mission Bay housing program or by approximately 2.4 percent to raise the $15 million for the Housing Affordability Fund. The Board of Supervisors is currently considering a proposal that would place a two percent General Fund surcharge on the Hotel Tax to raise the rate from 11 percent to 13 percent.

Bond Measure

Ms. Smith reports that the Mayor's Office of Housing is not currently pursuing a bond issue as an alternative for funding the City's Mission Bay housing subsidy. Ms. Smith adds that the Federal tax exempt requirements for general obligation bonds make it difficult to issue tax-exempt bonds for housing projects that are going to occur over extended periods of time and that taxable bonds are not necessarily the most efficient way to raise the funds for the City's subsidy.

Housing Program Administration

Under the terms of the Development Agreement, the Mayor's Office of Housing (or its successor) would administer the City's Mission Bay Housing Program. The Mayor's Office of Housing would have responsibility for:

- Reviewing the development of affordable housing units to assure compliance with the Development Agreement.

- Preparing an annual report on the status of the housing development which will report whether the goals in the financing and development plan are being met and identify the Mission Bay Housing Budget necessary to meet the goals of the financing and development plan in the succeeding two-year period.

- Selecting the developers for each housing site through preparation and distribution of RFQs and RFPs, reviewing Development Proposals, and exclusive negotiations for the purpose of entering into an agreement.

To assist the Mayor's Office of Housing in administering the Housing Program, the Mission Bay Housing Advisory Group would be established, consisting of City-funded non-profit housing corporations and representatives from appropriate City departments. Ms. Smith states that there would be additional annual costs of $30,000 for the Mayor's Office of Housing to manage the Mission Bay Project.

The Development Agreement specifies the steps the Mayor's Office of Housing must follow in developing the City's share of housing, assures the continued affordability of the housing units and sets other conditions regulating development for the City's housing units. After the City has received title to the housing parcels, the Mayor's Office of Housing will select developers through a three step process: Request for Qualifications (RFQ), Request for Proposal (RFP), and developer selection. When an individual developer is selected, then the Mayor's Office of Housing will negotiate a development agreement or a disposition and regulatory agreement for the transfer of the land which will include provisions of the estimated costs of the project, the affordability of housing, the limits of liability etc. According to Ms. Noreen Ambrose of the City Attorney's Office, these individual development agreements or disposition and regulatory agreements would be subject to approval by the Board of Supervisors. This provides the Board of Supervisors with the authorization to review the City's development of Mission Bay housing sites over the term of the Mission Bay Development Agreement.

Section III: Cost and Revenue Effect on City Budget

The Budget Analyst is still conducting an analysis of the costs and benefits that would accrue to the City if the Mission Bay Development Agreement is enacted. The following sections are our preliminary observations of the potential fiscal effects on the City's budget of entering the Agreement. The January 1990 financial evaluation of the Mission Bay Project conducted by Economic and Planning Systems, Inc., which details a significant number of City revenues and costs, was used as a reference source in conducting our analysis.

The overall costs and benefits of the Mission Bay Project indicate a positive net cash flow to the City over the length of the project, even when considering the $5 million annually that the City must contribute for thirty years for the housing subsidy. However, if we assume that the City will begin its $5 million annual affordable housing obligation in Fiscal Year 1992-93, net cash flow from the Project is likely to be negative for close to the first ten years as the Project development proceeds. It should also be noted that this analysis, extending for 30 years into the future, is speculative and based on economic conditions that could significantly change.

Project Revenues

The most significant source of Project revenues are property tax revenues that would accumulate to the City as land is developed and through appreciation of property that changes hands. Using land valuation rates considered conservative by the Assessor's Office and assuming an equal rate of development each year, the City would receive over $400 million in property tax revenues over the next 30 years. This sum would represent almost 65 percent of all the revenues that the City would receive from the Project. Other funds that the City would receive include other local taxes such as payroll and gross receipts taxes, State subventions, licenses and fines and charges for current services. While our final analysis may not concur with all of these revenue sources included in the financial model, our preliminary conclusion is that most of these revenues should be considered reasonably secure.

Project Costs

Since most of the Project infrastructure and development costs are being paid for by Catellus, the City's financial obligations are limited to those incurred by City departments to provide services to the new residents and employees in the Project area. These costs have been estimated in the financial model at over $300 million for the next 30 years. A significant portion of these costs have been calculated using a per capita estimation of most City department costs and extrapolating those costs to the additional residents and employees that would be added to the City through the Project. For example, the Controller's budget for 1987-88 was used by Economic and Planning Systems Inc. for purposes of dividing that budget by the number of City employees and residents in order to obtain a per capita figure and then multiplied by the number of residents and employees estimated to have been added by the Project in a given year. For those departments that would experience substantial increased operating costs due to the Project, specifically Police, Fire, Public Works, Municipal Railway, Recreation and Parks and Planning, the per capita cost method was not used but direct operating costs were estimated based on services to be provided.

The Budget Analyst questions whether the per capita estimation method is an accurate measure to determine costs to City departments. Since the time that these estimates were made by Economic and Planning Systems Inc., using budget information for Fiscal Year 1987-88, the City's population has declined slightly while General Fund budget costs have increased approximately 15 percent. It is uncertain whether City department costs would increase proportionately for a slightly more than two percent increase in City population and a three percent increase in City employees over a 30-year period. The Budget Analyst is in the process of obtaining and verifying estimates from the City departments most likely to experience substantial cost increases from the Project - Police, Fire, Public Works, Municipal Railway, Recreation and Parks and Planning.

The Budget Analyst notes that the Planning Commission has approved several resolutions relating to the finances of the Mission Bay Project. These resolutions recognize that the City will receive a fiscal surplus from the Mission Bay Project

and recommend that the Board of Supervisors allocate funds from these surpluses for affordable housing and economic development.

Section IV: Hazardous Materials Remediation Costs

Because of its long history as an industrial site, significant quantities of hazardous materials may be present in the Mission Bay Project area. The costs of cleaning up these materials may be substantial but until a detailed subsurface investigation of the site is completed, and any necessary remediation plans are proposed, such costs cannot be fairly estimated.

The cost of the investigation and remediation of hazardous materials in Mission Bay will be borne entirely by Catellus except for clean-up required for China Basin Channel sediment and certain Port property. The Development Agreement requires that Catellus investigate and remediate hazardous materials prior to the initiation of any development. This requirement means that all City housing sites, parks, and community facilities would be given to the City adequately remediated for the intended use. Catellus' site investigation and remediation plans for each site within Mission Bay must be approved by the State regulatory agency with jurisdication over the clean-up. To secure Catellus' promise to perform, Catellus has agreed to obtain financial security prior to initiating the work in the sum of $30 million.

The City will share equally the investigation and remediation costs with Catellus, if necessary, in the case of China Basin Channel and the property occupied by H&H Ship Service Company. Although no definitive study of the Channel has been done, it is likely, given previous uses of the Channel, that hazardous materials are present in the sediments in the Channel. According to Ms. Elaine Warren of the City Attorney's Office, State Legislation requiring the San Francisco Bay Area Region Water Quality Control Board to set standards for San Francisco Bay sediment and identify areas needing remediation makes it likely that at some point in the future the City will be directed to investigate and, if necessary, remediate Channel sediment. If this does occur, the costs would be shared by the City and Catellus. Ms. Warren adds that Catellus' agreement to pay half the Channel clean-up costs only relates to the sediments in the Channel and not water quality. If the City is forced to clean-up the Channel because of issues related to water quality, then the City would have to pay the full costs.

Provided that, for whatever reason, H&H Ship Service Company does not perform all required remediation of its leased property, the responsibility for cleaning-up hazardous materials will be split equally between the City and Catellus, assuming that H&H Company vacates the site it presently occupies. According to Ms. Warren, H&H Company may continue to occupy some of its current space. If this occurs, the costs of clean-up may be renegotiated by Catellus and the City.

No cost estimates have been developed for the cost of investigating and remediating the China Basin Channel or the H&H Company parcel. Ms. Warren reports that the City's share of costs for Channel sediment remediation would

likely be shared by the City's General Fund and the Port of San Francisco, although the actual percentages to be paid by each party have not been determined. Clean-up costs associated with the H&H Company parcels would be borne by the Port. The City as well as Catellus both retain their right to attempt to recover the costs of the clean-up from any other legally responsible firms that can be identified as having disposed of the wastes present at the Mission Bay site.

Section V: City's Annual Review of Mission Bay Project

Under the terms of the Development Agreement, by October 1 of each year the Chief Administrative Officer and the Planning Director shall notify the Mayor and the head of each City department affected by the Mission Bay Project of the activity that is expected during the upcoming year that will generate fees or costs. Each department would then have to include in its budget the projected financial and staffing needs related to implementation of the project. The Mayor's Office would then provide a summary annual report detailing how budget needs specifically arising from the Mission Bay project are being addressed. As mentioned above, the Mayor's Office of Housing would also provide a separate annual report on the status of the housing development including the budget for the succeeding two-year period.

The Chief Administrative Officer and the Director of the Planning Commission would also annually review Catellus' compliance with the terms of the Development Agreement. The Board of Supervisors has the authority to request a hearing on whether Catellus should be granted a certificate of compliance. If the CAO and the Planning Commission determine that Catellus is not in compliance and initiate steps to terminate the agreement, then the Board of Supervisors would have the final authority to terminate the agreement. The Development Agreement has been amended so that that annual review of Catellus' compliance with the agreement will be coordinated with the City's budget process as opposed to the anniversary date of the execution of the Development Agreement. This would allow information generated by the annual review to be included in the review of City budgetary impacts.

The Development Agreement is structured to allow changes to the agreement if such changes are considered appropriate by the City and Catellus. "Major amendments" to the agreement would be subject to approval by the Board of Supervisors. "Minor changes" to the agreement, which would be accomplished through written Operating Memoranda, would not be subject to approval by the Board of Supervisors but any member of the Board of Supervisors would be given an opportunity to request a hearing on the proposed Operating Memoranda.

Section VI: Comments and Recommendation

1. As stated at the beginning of this report, the Budget Analyst will update and revise this report, as necessary, during the course of the hearings being conducted by the Mission Bay Special Committee. Specifically, additional information will be provided on the estimated costs and benefits to the City of entering into the Mission Bay Development Agreement. We will make

recommendations to the Board of Supervisors on the provisions of the Development Agreement when the Board of Supervisors considers actual legislation to approve the Mission Bay Development Agreement.

2. As noted above in Section II, the Mayor's Office of Housing would be given the authority to negotiate and select developers for the City's Mission Bay housing sites. These individual agreements would then be subject to review and approval by the Board of Supervisors which would provide the Board of Supervisors with authority to review the City's development of Mission Bay housing sites over the term of the Mission Bay Development Agreement.

3. It is provided in the proposed Development Agreement that a separate accounting would be made by the Mayor each year of budget costs associated with the Mission Bay Project and that the housing program would be included in that accounting. The Budget Analyst believes that Exhibit A-1 of the Mission Bay Development Agreement, which details the housing program component of the Development Agreement, should be amended to specifically include language that annual appropriations for the development of the City's Mission Bay housing program, whether from the General Fund or from any separately established funds, be subject to prior approval by the Board of Supervisors.

Harvey M. Rose

cc: Supervisor Hongisto
Supervisor Gonzalez
Supervisor Alioto
Supervisor Hsieh
Supervisor Ward
President Britt
Supervisor Hallinan
Supervisor Kennedy
Supervisor Maher
Supervisor Nelder
Supervisor Walker
Clerk of the Board
Legislative Policy Analyst
Chief Administrative Officer
Controller
Carol Wilkins
Ted Lakey

SELECT COMMITTEE ON MISSION BAY DEVELOPMENT

BOARD OF SUPERVISORS

CITY AND COUNTY OF SAN FRANCISCO

MEMBERS: SUPERVISORS HONGISTO, GONZALEZ, ALIOTO, HSIEH AND WARD

CLERK: JONI LANDRY

THE FOLLOWING IS A REVISED CALENDAR FOR MEETINGS OF THE SELECT COMMITTEE ON MISSION BAY DEVELOPMENT TO BE HELD THURSDAY, OCTOBER 25, 1990, & NOVEMBER 1, 1990 AT 2:00 P.M. IN THE LEGISLATIVE CHAMBER

OCTOBER 25, 1990

1. Workshop on Community Facilities, Child Care and Culture.

   Presentations by:
   Alec Bash, Project Director, Department of City Planning
   Representatives from Mission Bay Clearinghouse
   Representatives for Catellus Development Corporation

2. Workshop on Phasing and Start Dates for Project, Contractual Obligations Between City and Developer, Assessment Values, and Finances.

   Presentations by:
   Kenneth Taymor & Noreen Ambrose, Deputy City Attorneys
   Alec Bash, Project Director, Department of City Planning
   Representatives for Mission Bay Clearinghouse
   Representatives for Catellus Development Corporation

3. Public Comment

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OCT 19 1990

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NOVEMBER 1, 1990

PURSUANT TO GOVERNMENT CODE SECTION 65009, THE FOLLOWING NOTICE IS HEREBY GIVEN: If you challenge in court the ordinances for which notice of public hearing is hereby given, including the Mission Bay Development Agreement, City Planning Code text amendments and amendments to the height, bulk, and use districts as shown on the Zoning Map of San Francisco, you may be limited to raising only those issues you or someone else raised at the public hearings described in this notice, or in written correspondence delivered to the Board of Supervisors at, or prior to, the public hearings.

1. File 255-90-2. [Final EIR] Adopting Final Environmental Impact Report, finding and determining that the proposed Mission Bay Project, consisting of a specific plan, amendments to Master Plan, a development agreement, zoning reclassification and amendments to the City Planning Code will have significant impacts on the environment, and adopting and incorporating findings of Final EIR; companion measure to Files 255-90-3 through 255-90-6. (Department of City Planning).

   ACTION:

2. File 255-90-3. [Mission Bay Development Agreement] Adopting and approving the Development Agreement by and between San Francisco and Catellus Development Corporation (Development Agreement), and authorizing Mayor to execute the Development Agreement on behalf of San Francisco; companion measure to Files 255-90-2 through 255-90-6. (Department of City Planning).

   ACTION:

3. File 255-90-4. [City Planning Code Text Amendment] Amending City Planning Code Sections 102, 201 and 202 to refer to New Article 9, and adding Article 9 to establish the Mission Bay District, and provide for permitted uses, zoning control tables, density, height district measurements and exceptions, building form articulation provisions, setbacks and projections, rooftop features, awnings and marquees, lot coverage and building separations, parking and freight loading/service vehicle provisions, sign provisions, relationship to transportation management - resident training and placement - childcare - office space limitation - historic preservation provisions, rules for nonconforming uses and noncomplying structures, rules for conditional, temporary and accessory uses, and provisions for compliance, permit approval and enforcement among other provisions; companion measure to Files 255-90-2 through 255-90-6. (Department of City Planning).

ACTION:

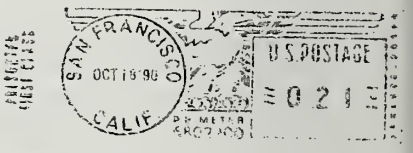
4. File 255-90-5. [Reclassification of Property] Amending City Planning Code by amending the Zoning Map of of San Francisco for certain properties in the Mission Bay Area generally bounded by Third, Berry, and Fourth Streets, The China Basin Channel, China Basin, Mariposa, Pennsylvania, Seventh and Townsend Streets, all of Assessor's Blocks 3795 - 3798, 3804 - 3806, 3809, 3810, 3813, 3819, 3822, 3832, 3835, 3837 - 3841, 3849 - 3853, 3880, 3892, 3942, and 3944 and portions of Assessor's Blocks 3940, 3941, 3943, 3948 and 9900; and to reclassify these properties from C-M to MB-O, and from M-2 and P to MB-R-1, MB-R-2, MB-R-3, MB-O, MB-CI, MB-CF, MB-NC-S, MB-NC-2 and MB-NC-3, MB-H, M-1, and MB-OS Use Districts; companion measure to Files 255-90-2 through 255-90-6. (Department of City Planning).

ACTION:

5. File 255-90-6. [Reclassification of Property] Amending City Planning Code by amending the Zoning Map of San Francisco for certain properties in the Mission Bay Area generally bounded by Third, Berry, and Fourth Streets, The China Basin Channel, China Basin, Mariposa, Pennsylvania, Seventh and Townsend Streets, all of Assessor's Blocks 3795 - 3798, 3804 - 3806, 3809, 3810, 3813, 3819, 3822, 3832, 3835, 3837 - 3841, 3849 - 3853, 3880, 3892, 3942, and 3944 and portions of Assessor's Blocks 3940, 3941, 3943, 3948 and 9900; and to reclassify these properties from 40-X, 50-X, 80-B, 105-F, 130-B, and 200-E Height and Bulk Districts to OS, 45, 55, 70, 85, 95 and 110, Height Districts; companion measure to Files 255-90-2 through 255-90-5. (Department of City Planning).

ACTION:

SELECT COMMITTEE ON MISSION BAY DEVELOPMENT
BOARD OF SUPERVISORS
235 CITY HALL
SAN FRANCISCO, CA 94102



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CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

1390 Market Street, Suite 1025, San Francisco, CA 94102 (415)554-7642

October 23, 1990

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OCT 25 1990
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TO: Select Committee on Mission Bay Development

FROM: Budget Analyst

SUBJECT: October 25, 1990 Select Committee on Mission Bay Development Meeting

The following report is our analysis of the Mission Bay Development Agreement between Catellus Development Corporation and the City and County of San Francisco. This report is intended to provide background information concerning the Development Agreement, an evaluation of the costs and benefits to the City of entering into the Agreement and comments and recommendations on how the Agreement should be amended. All dollar figures quoted in this report, unless otherwise noted, are in current, 1990 dollars.

Our report is organized into six sections as follows:

Section I: Introduction and General Provisions of Development Agreement

Section II: Analysis Of Mission Bay Development Agreement Housing Program

Section III: Cost and Revenue Effect on City Budget

Section IV: Hazardous Materials Remediation Costs

Section V: City's Annual Review of Mission Bay Project

Section VI: Comments and Recommendations

Section I: Introduction and General Provisions of Development Agreement

According to the provisions of Chapter 56 of the Administrative Code, the Board of Supervisors is delegated the authority to approve the Mission Bay Development Agreement between the City and Catellus Development Corporation. The Mission Bay Project, which has been characterized as the largest development in San Francisco history, would develop a new neighborhood on a 315 acre parcel of former railroad and shipping yards. Pending approval of certain agreements and the investigation and, where necessary, the remediation of hazardous materials, commercial and residential development would likely commence by January 1, 1992 and continue for an unspecified period of between 20 and 30 years. Important elements of the Mission Bay Development Plan include:

- 4.8 million square feet of commercial office space.
- 900,000 square feet of commercial/light industrial space.
- 750,000 square feet of retail space
- A 500-room, 400,000 square foot hotel
- At least 8,200 on-site housing units of which 3,000 would be affordable, on-site units plus a commitment from Catellus to provide funds to renovate 250 affordable off-site units. All of the housing units will be multi-family housing.
- Community facilities including fire and police stations, recreation and cultural centers and a school.
- Approximately 70 acres of open space and parks which include 12 acres of wetlands along San Francisco Bay.

The costs of developing the infrastructure and providing the facilities listed above for the Mission Bay Project (exclusive of the housing construction and subsidy costs) are estimated at approximately $302.1 million. Of that sum, approximately $233.8 million would be provided by Catellus, $63 million would be provided through grants and other Federal and State Agencies and the City would be obligated to provide $5.3 million. Additionally, Catellus has pledged an initial $30 million for hazardous waste investigation and remediation.

In order for Catellus and the City to proceed with the current Mission Bay Project, the voters must approve Proposition I on the November 6, 1990 ballot which would exclude Catellus from Proposition M. Proposition M places an annual limit of 950,000 square feet of new office space which may be approved. Since the Mission Bay Project calls for 4.8 million square feet of commercial office space, without the exclusion from the provision of Proposition M, Catellus would have to go through the annual process of receiving authorization to build new office space which could significantly slow the pace of commercial development.

This would then slow Catellus' provision of space for affordable housing, community facilities and parks.

According to Mr. Alec Bash of the Planning Department, it is not likely that Catellus will obtain the necessary agreements and complete the required investigation and remediation of hazardous waste before the end of 1991. Our analysis has assumed that development will begin in 1992 and that the first significant revenues and costs to the City will occur in Fiscal Year 1992-93. Development will occur over a 20 to 30 year period and our analysis examines the estimated fiscal costs and benefits for the next 30 years.

The proposed Development Agreement has significant fiscal implications for the City. Revenues would be generated through additional taxes, primarily property taxes assessed on the new commercial and residential development. The City would incur expenditures through the additional City services that must be provided to the new neighborhood, including expenditures for half the construction costs of a new police station (with Catellus to pay the other half). The most significant cost to the City of entering into the Development Agreement would be the subsidy that the City would provide for the construction of 2,200 affordable housing units, estimated to cost $150 million net of Federal and State subsidies.

Section II: Analysis Of Mission Bay Development Agreement Housing Program

The Development Agreement is designed to produce at least 8,200 units of on-site affordable and market rate housing during the course of the project. Additionally, Catellus would provide funds for the rehabilitation of 250 affordable off-site units. The breakdown of these units is shown in the table below.

Table 1
Allocation of Catellus and City Housing Units

Catellus Share of Housing	
Market Rate Units	5,200
Affordable Units	950 *
Subtotal Catellus	6,150
City Share of Housing	
Affordable Units	2,300
Total Housing Units	8,450

* Includes 700 units on-site and 250 off-site.

The City's share of affordable housing units includes 100 units subsidized by Catellus but built by the City. Catellus' 250 off-site units are specifically designated for the rehabilitation of residential hotels for which Catellus will contribute $4 million.

The production of housing will be tied to the production of commercial development, with one housing unit (including a proportionate amount of Catellus and City affordable housing units) being produced for each 712 feet of commercial development. The Development Agreement requires Catellus to begin construction of housing within five years of the Project start date and for 2,000 units of housing, of which no less than 740 will be affordable, to be completed no later then ten years after the start date. The delivery of the City's 26 acre affordable housing development site would be accelerated after Catellus acquires the right to remove the I-280 Freeway stub so that the City receives at least two acres every four years. Once the site currently occupied by the CalTrain station becomes available to Catellus for office development, the rate of housing site delivery would then be increased to at least four acres every four years.

Catellus Affordable Units

Catellus is to build 700 on-site affordable housing units, exclusive of the 250 affordable off-site units and the 100 affordable units to be built by the City but subsidized by Catellus. Of these 700 units, Catellus has agreed to provide 250 units for those earning 120 percent of median income, 150 units for those earning 100 percent of median income and 300 units for those earning 75 percent of median income. These subsidies are contingent on the City agreeing to use its best efforts to obtain public and private grant funds to pay for development of the wetlands to be included as part of the Project. Catellus would also agree to increase its subsidies for those 700 units, to provide 350 on-site units at 100 percent of median income and 350 on-site units at 75 percent for the total 700 on-site units if, within seven years after the start date of the Project, the necessary authorizations for the removal of the CalTrain Station located within the Mission Bay area have been received.

Using the subsidy costs calculated in this report to determine the amount of the City's subsidy, similar figures can be calculated to determine the amount of Catellus' housing subsidy (assuming Catellus' development costs are similar to that of the City's development costs). The subsidy for 250 units at 120 percent of the median income, 150 units at 100 percent and 300 units at 75 percent would be approximately $29 million while the subsidy for 350 units at 100 percent of the median income and 350 units at 75 percent would be approximately $35.6 million. When the $4 million subsidy for 250 residential units and the approximately $11 million subsidy for 100 rental units at 50 percent of the median income (calculated below) are added, Catellus' total housing subsidy ranges from $44 million to $50.6 million, exclusive of its costs of providing the City with land remediated of hazardous materials and with infrastructure in place.

City's Affordable Units

The City will develop its housing on numerous sites totalling 26 acres and will receive this land from Catellus with hazardous waste remediation complete and infrastructure in place. All of the housing will be multi-family housing. The units to be built by the City will range in size from studios to four bedroom apartments. The units will be targeted to be affordable for those earning from less than 50 percent of the median income to 120 percent of the median income (For the subsidy amounts calculated below, the less than 50 percent of median income subsidy was calculated assuming an average income of 45 percent of median income for those units). The Mayor's Office of Housing has estimated that there would be a mix of 50 percent rental units and 50 percent ownership. Based on this mix of apartment sizes, level of affordable income, and rental and home ownership units, the Mayor's Office of Housing has estimated the allocation of units as listed in Table 2 below. Although there are certain conditions framing this allocation of housing units (such as the less than 50 percent of median income units being limited for rent and not ownership), this breakdown of units has been acknowledged by the Mayor's Office of Housing as being simply an approximation of what the final housing mix could be. The Budget Analyst has analyzed the assumptions governing this allocation and has found them valid and useful as a basis for calculating the City's required fiscal subsidy.

Table 2
Distribution of City Affordable Housing Units

	Rental Units			Ownership Units				
Unit Size	Affordable Income Level <50%*	75%*	Subtotal	Affordable Income Level 75%*	100%*	120%*	Subtotal	Total All Units
Studio	252	77	329	0	0	0	0	329
1 Bedrm.	133	43	176	45	37	90	172	348
2 Bedrm.	126	62	188	74	62	149	285	473
3 Bedrm.	231	135	366	144	120	290	554	920
4 Bedrm.	57	34	91	36	30	73	139	230
Total	799	351	1,150	299	249	602	1,150	2,300

* Percent of the median income

Of the rental units listed above, 200 would be reserved for elderly tenants. 100 units of the less than 50 percent of the median income rental category units would be built by a developer selected by the City but subsidized by Catellus.

The City's subsidy for these 2,200 units (subtracting the 100 units to be built by the City but subsidized by Catellus) can be calculated by comparing the estimated development costs for each unit with the mortgage costs supportable by each income level for each type of unit. These supportable mortgage amounts have been calculated based on a certain percentage of income being available for housing costs plus making adjustments for operating or homeowner costs. The average sales prices and average rents, by income category, are shown in Table 3 below. The median income for a family of four in San Francisco as calculated by the U.S. Department of Housing and Urban Development is $45,600 as of March 5, 1990.

Table 3
Average Rents and Sale Prices per Income Category

	Average Rent		Average Sales Price		
Unit Size	50% Median	75% Median	75% Median	100%Median	120% Median
Studio	$400	$600	$43,408	$68,602	$86,693
1 Bedrm.	$458	$683	$56,045	$79,291	$99,956
2 Bedrm.	$517	$767	$63,079	$89,230	$112,479
3 Bedrm.	$567	$858	$69,333	$98,427	$124,261
4 Bedrm.	$608	$908	$72,048	$103,092	$130,065

Using these average rents and sales prices, the amount of the City's subsidy can be calculated. Table 4 below shows the total subsidy and per unit subsidy for the City housing units.

Table 4
Calculation of City Housing Subsidy

Rental Units	Studio	1 Bedrm.	2 Bedrm.	3 Bedrm.	4 Bedrm.
<50% of Median Income					
# of Units	252	133	126	231	57
Subsidy/Unit	$80,972	$102,983	$117,666	$148,244	$183,164
Total Subsidy	$20,404,944	$13,696,739	$14,825,916	$34,244,364	$10,440,348
Subtotal All <50% Units		$93,612,311			
Less Catellus Share		($11,701,539)*			
Net City Subsidy		$81,910,772			

* Catellus will provide subsidy for 100 units at less than 50 percent of median income. The Catellus subsidy is calculated as 12.5 percent (1/8) of the 800 units to be built in this category.

Table 4 (continued)
Calculation of City Housing Subsidy

	Studio	1 Bedrm.	2 Bedrm.	3 Bedrm.	4 Bedrm.
75% of Median Income					
# of Units	77	43	62	135	34
Subsidy/Unit	$56,664	$75,315	$85,626	$110,545	$143,468
Total City Subsidy	$4,363,128	$3,238,545	$5,308,812	$14,923,575	$4,877,912
Subtotal All 75% Units		$32,711,972			
Total City Rental Unit Subsidy		$114,622,744			
Ownership Units					
75% of Median Income					
# of Units	None	45	74	144	36
Subsidy/Unit	None	$57,705	$68,671	$95,667	$130,452
Total City Subsidy	None	$2,596,725	$5,081,654	$13,776,048	$4,696,272
Subtotal All 75% Units		$26,150,699			
100% of Median Income					
# of Units	None	37	62	120	30
Subsidy/Unit	None	$34,459	$42,520	$66,573	$99,408
Total City Subsidy	None	$1,274,983	$2,636,240	$7,988,760	$2,982,240
Subtotal All 100% Units		$14,882,223			
	Studio	1 Bedrm.	2 Bedrm.	3 Bedrm.	4 Bedrm.
120% of Median Income					
# of Units	None	90	149	290	73
Subsidy/Unit	None	$13,794	$19,270	$40,739	$71,895
Total Subsidy	None	$1,241,460	$2,871,230	$11,814,310	$5,248,335
Subtotal All 120% Units		$21,175,335			
Total City Ownership Units Sub.		$62,208,257			
Total City Subsidy		**$176,831,001**			

The total subsidy that the City must provide would occur over the life of the development agreement and depend upon the rate of actual development by Catellus and the City. As shown above, approximately 65 percent ($114.6 million of $176.8 million) of the subsidy costs would go to rental units and approximately 35 percent ($62.2 million of $176.8 million) to the ownership units. It should also be

noted that the subsidy of $81.9 million for the less than 50 percent of median income rental units accounts for approximately 46 percent ($81.9 million of $176.8 million) of the entire subsidy of $176.8 million.

A different mix of housing between the various income, size and ownership or rental categories would change the amount of the City's subsidy. The subsidy for the rental units is greater than those for the ownership units and if the 50-50 mix of rental and ownership were changed towards greater ownership of units, the amount of the City's subsidy would decrease. For example, if only 40 percent of the units were rental and 60 percent were owned and these changes were made proportionately across the different unit size and affordable income categories, then the total subsidy would be reduced by $5.5 million from $176.8 million to $171.3 million. This amount could be offset to a certain degree, given that there are higher levels of Federal and State subsidies available for rental units. The City subsidy could also be reduced by building smaller units or targeting the units to a higher percentage of the median income (i.e., build more units for those at 100 percent of the median income instead of less than 50 percent).

The allocation of housing units presented above provides an overall deeper level of subsidies then contained in earlier versions of the proposed Development Agreement. Because of this "deepening" of the affordable income levels of Mission Bay housing, the Mayor's Office of Housing has estimated that the City would receive between $20-30 million over the life of the project in Federal or State grant funds. These potential Federal and State funds are estimated based on the increased number of units that would be affordable to those earning 80 percent of the median income or below. If at a later stage in the implementation of the Development Agreement the subsidy for City housing units were to be deepened further, additional subsidies would have to be provided.

As a condition of the Development Agreement, Catellus has agreed to pay $4 million to the City for the rehabilitation of 250 off-site residential hotel units. This would equal $16,000 per unit. According to the Mayor's Office of Housing a realistic current estimate of the cost of remodeling each residential hotel unit is $25,000 or a total of $6,250,000. Ms. Barbara Smith of the Mayor's Office of Housing states that the $2,250,000 balance ($6,250,000 cost less $4,000,000 Catellus subsidy) to renovate the residential hotel units would likely be available from State grant funds for the retrofitting of buildings. However, if these State grant funds are not available, the City would have to assume the additional $2,250,000 in costs. Catellus will pay their $4 million in two $2 million installments during the initial phases of the Project.

Financing of City Subsidy

The total cost of developing the City's Mission Bay housing sites is $329 million. Approximately $140 million would be provided by the owners and renters of the units and approximately $12 million by Catellus as a subsidy for 100 rental units. The $176.8 balance (rounded at $177 million) in funds would be the amount to be covered from public sources. Assuming that the Mayor's Office of Housing is able to obtain the $20 to $30 million of Federal and State grant funds towards the total subsidy of $176.8 million for the cost of the City's Housing Subsidy Program, the net cost to the City would be between $146.8 million to $156.8 million. If $150 million is assumed to be the estimate of the City's cost of the Program subsidy and the length of the Program is 30 years, then $5 million a year would be required in City funds. A number of sources of these funds have been suggested by the Mayor' Office of Housing and the Planning Commission including:

- Increase in the Real Property Transfer Tax
- Increase in the Hotel Tax
- Bond measure
- Annual appropriation from the City's General Fund

Proposition J on the November 6, 1990 ballot, if passed by the voters, would make it City policy to provide $15 million annually for a Housing Affordability Fund, of which $5 million would be available for Mission Bay. The proposed funding sources mentioned above are all possible sources for the City's cost of its housing subsidy.

Real Property Transfer Tax

The Budget Analyst previously prepared a report analyzing what increase in the real property transfer tax would be needed to raise $15 million annually. Our report concluded that the real property tax rate would have to increase by approximately 49 percent from the current $2.50 per $500 consideration of value to $3.73 per $500 consideration of value. This assumes that the rate increase would be combined with the deletion of the exemption for assumed indebtedness. A proposed ordinance to increase the Real Property Transfer Tax rate by this amount with the deletion of the exemption for assumed indebtedness was rejected by the Board of Supervisors on September 17, 1990. However, on October 15, 1990 the Board of Supervisors approved an ordinance to delete the provision for assumed indebtedness.

There is currently a proposed ordinance before the Board of Supervisors that would increase the real property tax rate from $2.50 to $5.00 per $500 of property value. How much the tax rate would need to be increased to specifically raise $5 million annually for Mission Bay Housing would depend on the actual rate at the time of the proposed increase and the amount of revenues the real property tax rate was currently raising.

Hotel Tax

The City's Hotel Tax is currently 11 percent. Of the eight percent portion of the total 11 percent tax rate that goes to the Hotel Tax Fund, 6.23 percent less $60,000 goes to low income housing development plus another additional flat sum of $100,000 is allocated for low income housing. In the Fiscal Year 1990-91 budget, these two sources are estimated to receive $3,113,465. The Budget Analyst has previously estimated that each one percent increase in the overall Hotel Tax generates an estimated $6,166,663 annually. It would not be practical to increase the Hotel Tax to fund the City's Mission Bay Housing Program alone through the Hotel Tax Funds that are allocated to low income housing because the tax rate would have to increase by more than 150 percent from 11 percent to over 27 percent and these funds are limited to providing low cost housing for senior citizens. However, to provide funds for affordable housing through a simple increase in the 11 percent Hotel Tax, given that each additional one percent increase in the Hotel Tax would raise $6,166,663, the Hotel Tax rate would need to be increased by approximately .8 (.008) percent to raise the $5 million annual subsidy for the City's Mission Bay housing program or by approximately 2.4 percent to raise the $15 million for the Housing Affordability Fund. The Board of Supervisors is currently considering a proposal that would place a two percent General Fund surcharge on the Hotel Tax to raise the rate from 11 percent to 13 percent.

Bond Measure

Ms. Smith reports that the Mayor's Office of Housing is not currently pursuing a bond issue as an alternative for funding the City's Mission Bay housing subsidy. Ms. Smith adds that the Federal tax exempt requirements for general obligation bonds make it difficult to issue tax-exempt bonds for housing projects that are going to occur over extended periods of time and that taxable bonds are not necessarily the most efficient way to raise the funds for the City's subsidy.

Housing Program Administration

Under the terms of the Development Agreement, the Mayor's Office of Housing (or its successor) would administer the City's Mission Bay Housing Program. The Mayor's Office of Housing would have responsibility for:

- Reviewing the development of affordable housing units to assure compliance with the Development Agreement.

- Preparing an annual report on the status of the housing development which will report whether the goals in the financing and development plan are being met and identify the Mission Bay Housing Budget necessary to meet the goals of the financing and development plan in the succeeding two-year period.

- Selecting the developers for each housing site through preparation and distribution of RFQs and RFPs, reviewing Development Proposals, and exclusive negotiations for the purpose of entering into an agreement.

To assist the Mayor's Office of Housing in administering the Housing Program, the Mission Bay Housing Advisory Group would be established, consisting of City-funded non-profit housing corporations and representatives from appropriate City departments. Ms. Smith states that there would be additional annual costs of $30,000 for the Mayor's Office of Housing to manage the Mission Bay Project.

The Development Agreement specifies the steps the Mayor's Office of Housing must follow in developing the City's share of housing, assures the continued affordability of the housing units and sets other conditions regulating development for the City's housing units. After the City has received title to the housing parcels, the Mayor's Office of Housing will select developers through a three step process: Request for Qualifications (RFQ), Request for Proposal (RFP), and developer selection. When an individual developer is selected, then the Mayor's Office of Housing will negotiate a development agreement or a disposition and regulatory agreement for the transfer of the land which will include provisions of the estimated costs of the project, the affordability of housing, the limits of liability etc. According to Ms. Noreen Ambrose of the City Attorney's Office, these individual development agreements or disposition and regulatory agreements would be subject to approval by the Board of Supervisors. This provides the Board of Supervisors with the authorization to review the City's development of Mission Bay housing sites over the term of the Mission Bay Development Agreement.

Section III: Cost and Revenue Effect on City Budget

The Budget Analyst conducted an analysis of the costs and benefits that would accrue to the City if the Mission Bay Development Agreement is enacted. The January 1990 financial model of the Mission Bay Project conducted by Economic and Planning Systems, Inc. (EPS), which details potential sources of City revenues and costs, was used as a reference source in conducting our analysis.

Our analysis indicates that the total cost/benefit to the City of entering into the Mission Bay Development Agreement would be $217 million and the net benefit, when the $150 million cost of the City's housing subsidy is included, would be $67 million. Our analysis assumes that the City's housing subsidy would be required during the first year of the Mission Bay Project (Fiscal Year 1992-93) and would continue for the next 30 years. This subsidy would be offset by the small amount of revenues earned during the initial years of the Project, leading to a negative cash flow. Our analysis indicates that it would not be until the thirteenth year of the Project (Fiscal Year 2004-5) before the City began to see a net positive cash flow from Project revenues and that this initial shortfall would total approximately $29 million. Consequently, Project revenues to the City over the last 18 years of the agreement, net of the City's housing subsidy costs, would total approximately $96 million. It should also be noted that our analysis was limited to

the estimated 30 year project buildout period which is also the length of the City housing subsidy. In the years beyond this 30 year period, the City would continue to accrue tax revenues and incur costs but these sums would no longer be offset by the amount of the housing subsidy.

It is important to note that this analysis examines the cost and benefits to the City of the Mission Bay Project itself. The goal was to determine if entering into the Development Agreement would lead to increased revenues and costs to the City. The estimated benefit of $67 million does not mean that the City will see a net increase in City revenues in this amount or that the revenues and costs discussed below will be net City revenues or costs. This will depend on to what degree the Mission Bay Project results in actual increases in City residents and employees. The financial model developed by EPS and evaluated by the Budget Analyst assumed an increase in City population by the full amount of Mission Bay residents (estimated to be 16,400) and an 85 percent increase in new City employees (19,550 of the estimated 23,000 new jobs). If these numbers are offset by a decline of residents or employees in other sections of the City then the actual revenues and costs to the City would be different. The financial analysis of the Mission Bay Project was conducted to determine if the Project itself made economic sense for the City.

Our total cost/benefit figure of $217 million without the housing subsidy costs is very close to the benefits of $215 million estimated by EPS. This is appropriate because the Budget Analyst did not attempt to replicate the work conducted by EPS but to evaluate and, in some cases, update, the assumption and figures that were utilized. We found that, with very few exceptions, the assumptions were correct and verifiable by the appropriate City department representatives. Our analysis includes additional revenues from several sources (such as the Business Tax Registration Fee which was not included in the EPS analysis) and additional costs identified by the various City departments that were contacted. Additionally, we updated the dollar figures and City department cost estimates to reflect 1990 costs. The net change in these additions, however, was to produce a total benefit figure of $2 million higher than EPS's estimate.

Project Revenues

The most significant source of Project revenues are property tax revenues that would accumulate to the City as land is developed and through appreciation of property that changes hands. Using land valuation rates considered conservative by the Assessor's Office and assuming an equal rate of development each year, the City would receive almost $368 million in property tax revenues over the next 30 years. This sum would represent over 60 percent of the total revenues of approximately $612 million that the City would receive from the Project. Other funds that the City would receive include additional local taxes such as payroll and gross receipts taxes, State subventions, licenses and fines and charges for current services.

Project Costs

Since most of the Project infrastructure and development costs are being paid for by Catellus, the City's financial obligations are limited to those incurred by City departments to provide services to the new residents and employees in the Project area. These costs have been estimated in the financial model at approximately $395 million for the next 30 years. These costs have been calculated in two ways. For those departments which are expected to incur significant operating costs, department representatives were contacted to verify and update estimates included in the EPS analysis or to determine what the estimated costs would be. This method was followed for the Police Department, Fire Department, City Planning, Recreation and Park, Social Services and Municipal Railway. These departments alone account for approximately 58 percent or $231 million of the $395 million in estimated City department costs.

For other City departments a per capita estimation method was utilized. This method determined the current cost of providing general government services to the City's residents and employees and allocated those costs based on the number of new employees and residents that would be living or working in Mission Bay. In our initial report, the Budget Analyst had questioned whether this was an accurate way to estimate City department costs. It is not accurate if one assumes that costs estimated in this fashion would result in actual City costs of this magnitude. This is because City population and employees are only two factors impacting department budgets, and Mission Bay may not result in such significant net increases in total City population and employees. The per capita method, however, can be used appropriately for an evaluation of the cost of the Mission Bay Project itself. The assumption being used is that Mission Bay would contain a population of 16,400 residents and 19,550 new employees and given the current cost of providing services to City residents and employees, this is what providing the same per capita level of services would cost. Again, the distinction must be made that these are estimates for the Mission Bay Project itself and the actual costs to the City would differ.

The Budget Analyst notes that the Planning Commission has approved several resolutions relating to the finances of the Mission Bay Project. These resolutions recognize that the City will receive a fiscal surplus from the Mission Bay Project and recommend that the Board of Supervisors allocate funds from these surpluses for affordable housing and economic development.

Imposition of Fees

The Development Agreement contains provisions defining what existing or future City development fees could be charged to Catellus. Basically, Catellus would be exempt from any new development fees until five years after the effective date of the Agreement. Catellus would be exempt from any increase in existing fees until 15 years after the start date of the Mission Bay Project, with the exception of Transit Impact Development Fees (TIDF) and Child Care Fees (see following information on Mission Bay Funds). Catellus would be exempt for the

life of the Agreement from the imposition of any fees that are considered "redundant" of current fees. Redundant fees are defined in the Development Agreement as fees for which a current fee already exists for a similar purpose or the fee would duplicate a community facility or public improvement provided by Catellus as part of its obligations under the Agreement. An example of a redundant fee would be if the City at some point in the future decided to implement a development fee for police protection. Catellus would be exempt from this fee because it would be considered redundant since Catellus had agreed to provide funds for the construction of a new police station.

The Budget Analyst agrees that the public improvements and services to be provided by Catellus as part of the Development Agreement should provide some protection from the imposition or raising of City development fees. However, the Budget Analyst does not believe that Catellus should be exempt from fees considered "redundant" for the life of the Development Agreement (a period of up to 40 years). If at some point in the future the City decides to adopt new planning fees, Catellus should not be exempt from those fees simply because it has provided a concession to the City at an earlier date. The Budget Analyst recommends that the Development Agreement be amended to allow Catellus an exemption from any redundant fees for the first 15 years from the start date (similar to the provision for existing fees) and then be subject to fees determined to be redundant to the extent that the new fee would exceed Catellus' previous obligation. Using the police service fee example stated above, after 15 years Catellus would be required to pay the new development fee for police protection to the extent that the charges for that fee exceeded previous payments for the new police station.

Mission Bay Funds

The Development Agreement would establish two segregated accounts for certain fees paid by Catellus. These two accounts would be the Mission Bay Economic Development Fund and the Mission Bay Child Care Fund. The Economic Development Fund would be funded through an initial contribution of $2.5 million by Catellus and would receive up to an additional $11.4 million based on a contribution by Catellus for each square foot of office space developed. The monies from the Economic Development Fund would be utilized to encourage MBE/WBE/LBE participation in the Mission Bay Project during construction and operations, generate employment opportunities for minorities, women and economically disadvantaged City residents and create a mechanism to ensure MBE/WBE/LBE development in the City. The Economic Development Fund would receive policy guidance from a newly created Economic Development Program Board and the funds would be administered and distributed by the Mayor's Office of Business and Economic Development (MOBED).

The Child Care Fund would receive at least $2.4 million from Catellus and up to an additional $2.1 million for the establishment and provision of services for child care centers within Mission Bay. In addition, Catellus would provide at least 15,500 square feet for child care. The Mayor's Office of Child Care, working in conjunction with the Mayor's Advisory Council on Child Care, would determine allocations from the Child Care Fund.

The Budget Analyst notes that, over the course of the Mission Bay Project, the Economic Development Fund could expend up to $13.9 million and the Child Care Fund up to $4.5 million. Under the provisions of the Development Agreement, expenditure of these funds may not be subject to approval of the Board of Supervisors. In fact, the Development Agreement specifically states that the initial $2.5 million by Catellus would be established in a restricted account to be maintained by the Mayor's Office of Economic Development . . .independently of the City's budgetary process for ready access. Given the significant expenditures that would be allocated from both these funds, the Budget Analyst recommends that the Development Agreement be amended to require that all annual appropriations from both the Mission Bay Economic Development Fund and the Mission Bay Child Care Fund be subject to prior approval by the Board of Supervisors.

Section IV: Hazardous Materials Remediation Costs

Because of its long history as an industrial site, significant quantities of hazardous materials may be present in the Mission Bay Project area. The costs of cleaning up these materials may be substantial but until a detailed subsurface investigation of the site is completed, and any necessary remediation plans are proposed, such costs cannot be fairly estimated.

The cost of the investigation and remediation of hazardous materials in Mission Bay will be borne entirely by Catellus except for clean-up required for China Basin Channel sediment and certain Port property. The Development Agreement requires that Catellus investigate and remediate hazardous materials prior to the initiation of any development. This requirement means that all City housing sites, parks, and community facilities would be given to the City adequately remediated for the intended use. Catellus' site investigation and remediation plans for each site within Mission Bay must be approved by the State regulatory agency with jurisdiction over the clean-up. To secure Catellus' promise to perform, Catellus has agreed to obtain financial security prior to initiating the work in the sum of $30 million.

The City will share equally the investigation and remediation costs with Catellus, if necessary, in the case of China Basin Channel and the property occupied by H&H Ship Service Company. Although no definitive study of the Channel has been done, it is likely, given previous uses of the Channel, that hazardous materials are present in the sediments in the Channel. According to Ms. Elaine Warren of the City Attorney's Office, State Legislation requiring the San Francisco Bay Area Region Water Quality Control Board to set standards for San Francisco Bay sediment and identify areas needing remediation makes it likely that at some point in the future the City will be directed to investigate and, if necessary, remediate Channel sediment. If this does occur, the costs would be shared by the City and Catellus. Ms. Warren adds that Catellus' agreement to pay half the Channel clean-up costs only relates to the sediments in the Channel and not water quality. If the City is forced to clean-up the Channel because of issues related to water quality, then the City would have to pay the full costs.

Provided that, for whatever reason, H&H Ship Service Company does not perform all required remediation of its leased property, the responsibility for cleaning-up hazardous materials will be split equally between the City and Catellus, assuming that H&H Company vacates the site it presently occupies. According to Ms. Warren, H&H Company may continue to occupy some of its current space. If this occurs, the costs of clean-up may be renegotiated by Catellus and the City.

No cost estimates have been developed for the cost of investigating and remediating the China Basin Channel or the H&H Company parcel. Ms. Warren reports that the City's share of costs for Channel sediment remediation would likely be shared by the City's General Fund and the Port of San Francisco, although the actual percentages to be paid by each party have not been determined. Clean-up costs associated with the H&H Company parcels would be borne by the Port. The City as well as Catellus both retain their right to attempt to recover the costs of the clean-up from any other legally responsible firms that can be identified as having disposed of the wastes present at the Mission Bay site.

Section V: City's Annual Review of Mission Bay Project

The terms of the Development Agreement would be reviewed annually to make a formal determination that Catellus and the City have complied with the terms of the Agreement. The Planning Commission on October 4, 1990 adopted an ordinance that would amend provisions of Chapter 56, which pertains to the adoption of development agreements, to require that this annual review occur during the second week of January each year regardless of when the development agreement was actually approved. This would allow budgetary information generated as part of the compliance review to be considered during the City's annual budget process. This proposed Planning Commission ordinance is subject to approval by the Board of Supervisors.

The City's review of Catellus' annual compliance with the Development Agreement would be conducted by the Chief Administrative Officer (CAO) and the Director of City Planning. If the Director of City Planning and the CAO both certify that Catellus has complied with the Development Agreement, then a public presentation would be made to the Planning Commission. and if no member of the Board of Supervisors or the Planning Commission requests a hearing to review the documentation certifying compliance, a certificate would be granted. If a hearing is requested by a member of the Board of Supervisors or the Planning Commission and the Planning Commission determines that Catellus has complied with terms of the Development Agreement, then a certificate of compliance would be issued. This determination of compliance would be reported to the Board of Supervisors but not be subject to approval by the Board of Supervisors.

Should the Director of City Planning and the CAO determine that Catellus has not complied with the terms of the Development Agreement, a public hearing would be held before the Planning Commission to present the evidence of this non-compliance. If it is ultimately decided by the Planning Commission that Catellus is not in compliance and that proceedings need to be taken to modify or terminate the Development Agreement, then the Board of Supervisors would have the authority to approve either action. The Development Agreement and Chapter 56 of the Administrative Code are structured to provide the Board of Supervisors with the authority to disapprove the annual certificate of compliance but not the authority to approve the annual certificate of compliance. Further discussion of this point is contained in Point 3 in the Comments and Recommendation section below.

Under the terms of the Development Agreement, by October 1 of each year, the CAO and the Director of City Planning would notify the Mayor and the head of each City department affected by the Mission Bay Project of the activity that is expected during the upcoming year that will generate fees or costs. Each department would then have to include in its budget the projected financial and staffing needs related to implementation of the project. This information would be available to either the Board of Supervisors or the Planning Commission, as necessary, for purposes of the annual compliance review. The Mayor's Office would then provide a summary annual report detailing how budget needs specifically arising from the Mission Bay project are being addressed. As mentioned above, the Mayor's Office of Housing would also provide a separate annual report on the status of the housing development, including the budget for the succeeding two-year period.

The Development Agreement is structured to allow major and minor modifications to the terms of the Agreement. Major modifications, which are specified as including changes in most significant areas of the Agreement, such as permitted uses of the subject property, the restrictions governing affordable housing and the duration of the agreement, would be subject to approval by the Board of Supervisors. Minor modifications would be subject to approval by the Board of Supervisors if a member of the Board of Supervisors has requested a hearing on the proposed change. The agreement would also allow technical changes to the Agreement through the implementation of Operating Memoranda. These Operating Memoranda are not intended to result in significant changes to the provisions of the Development Agreement but to provide the City and Catellus with a method to implement technical changes to those provisions.

Section VI: Comments and Recommendations

1. As stated above in Section III, the Budget Analyst calculates that the total cost benefit to the City of entering into the Mission Bay Development Agreement would be $217 million and the net benefit, when the cost of the City's housing subsidy is included, would be $67 million. These amounts are reflective of a financial evaluation of the Mission Bay Project itself and should not be interpreted as being the actual new revenues that the City would be receiving.

2. As noted above in Section II, the Mayor's Office of Housing would be given the authority to negotiate and select developers for the City's Mission Bay housing sites. These individual agreements would then be subject to review and approval by the Board of Supervisors which would provide the Board of Supervisors with authority to review the City's development of Mission Bay housing sites over the term of the Mission Bay Development Agreement.

3. As stated above in Section V, the Board of Supervisors would have the authority to terminate the Development Agreement arising from a determination that Catellus is not in compliance with the Development Agreement but would not have the authority to approve the annual certificate of compliance. The Development Agreement is consistent with Chapter 56 of the Administrative Code which was established to avoid the situation where the Planning Commission approved granting a certificate of compliance and then the Board of Supervisors voted against granting the certificate. Since the hearing before the Planning Commission is an evidentiary hearing, the City could be subject to legal action if the Planning Commission made one decision based on the evidence and the Board of Supervisors made a conflicting decision. However, the Board of Supervisors is therefore denied an opportunity to annually certify that Catellus is in compliance with the Development Agreement. The Budget Analyst notes that the Development Agreement and similarly Chapter 56 of the Administrative Code could be amended to provide the Board of Supervisors with the authority to review the Planning Commission decision as to whether or not a certificate of compliance be granted. However, since this could require the Board of Supervisors to conduct an evidentiary hearing to decide whether Catellus is in compliance, the Budget Analyst considers that such a decision is a policy matter for the Board of Supervisors.

4. It is provided in the proposed Development Agreement that a separate accounting would be made by the Mayor each year of budget costs associated with the Mission Bay Project and that the housing program would be included in that accounting. The Budget Analyst recommends that Exhibit A-1 of the Mission Bay Development Agreement, which details the housing program component of the Development Agreement, be amended to specifically include language that annual appropriations for the development of the City's Mission Bay housing program, whether from the General Fund or from any separately established funds, be subject to prior approval by the Board of Supervisors.

5. The Budget Analyst recommends that the Development Agreement be amended to allow Catellus an exemption from any redundant fees for the first 15 years from the start date (similar to the provision for existing fees) and then be subject to fees determined to be redundant to the extent that the new fee would exceed Catellus' previous obligation or payments. The present Agreement would exempt Catellus from such fees for up to 40 years.

6. The Budget Analyst recommends that given the significant expenditures that would be allocated from the Mission Bay Economic Development Fund and the Mission Bay Child Care Fund, the Development Agreement should be amended to require that annual appropriations of all monies from both Funds be subject to prior approval by the Board of Supervisors. Under the present Agreement, such funds would not be subject to review and approval by the Board of Supervisors.

Harvey M. Rose

cc: Supervisor Hongisto
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CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

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November 13, 1990

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TO: Select Committee on Mission Bay Development

FROM: Budget Analyst - recommendations

SUBJECT: November 15, 1990 Select Committee on Mission Bay Development Meeting

The following report is our analysis of the Mission Bay Development Agreement between Catellus Development Corporation and the City and County of San Francisco. This report is intended to provide background information concerning the Development Agreement, an evaluation of the costs and benefits to the City of entering into the Agreement and comments and recommendations on how the Agreement should be amended. All dollar figures quoted in this report, unless otherwise noted, are in current, 1990 dollars.

Our report is organized into six sections as follows:

Section I: Introduction and General Provisions of Development Agreement

Section II: Analysis Of Mission Bay Development Agreement Housing Program

Section III: Cost and Revenue Effect on City Budget

Section IV: Hazardous Materials Remediation Costs

Section V: City's Annual Review of Mission Bay Project

Section VI: Comments and Recommendations

Section I: Introduction and General Provisions of Development Agreement

According to the provisions of Chapter 56 of the Administrative Code, the Board of Supervisors is delegated the authority to approve the Mission Bay Development Agreement between the City and Catellus Development Corporation. The Mission Bay Project, which has been characterized as the largest development in San Francisco history, would develop a new neighborhood on a 315 acre parcel of former railroad and shipping yards. Pending approval of certain agreements and the investigation and, where necessary, the remediation of hazardous materials, commercial and residential development would likely commence by January 1, 1992 and continue for an unspecified period of between 20 and 30 years. Important elements of the Mission Bay Development Plan include:

- 4.8 million square feet of commercial office space.
- 900,000 square feet of commercial/light industrial space.
- 750,000 square feet of retail space
- A 500-room, 400,000 square foot hotel
- At least 8,200 on-site housing units of which 3,000 would be affordable, on-site units plus a commitment from Catellus to provide funds to renovate 250 affordable off-site units. All of the housing units will be multi-family housing.
- Community facilities including fire and police stations, recreation and cultural centers and a school.
- Approximately 70 acres of open space and parks which include 12 acres of wetlands along San Francisco Bay.

The costs of developing the infrastructure and providing the facilities listed above for the Mission Bay Project (exclusive of the housing construction and subsidy costs) are estimated at approximately $302.1 million. Of that sum, approximately $233.8 million would be provided by Catellus, $63 million would be provided through grants and other Federal and State Agencies and the City would be obligated to provide $5.3 million. Additionally, Catellus has pledged an initial $30 million for hazardous waste investigation and remediation.

Proposition I, which would have excluded Catellus from Proposition M's limits, was not approved by the voters on the November 6, 1990 ballot. Proposition M places an annual limit of 950,000 square feet of new office space which may be approved. Since the Mission Bay Project calls for 4.8 million square feet of commercial office space, without the exclusion from the provision of Proposition M, Catellus will have to go through the annual process of receiving authorization to build new office space which could significantly slow the pace of commercial development. This could potentially delay Catellus' provision of some space for affordable housing, community facilities and parks.

In addition, Article 5 of the proposed Development Agreement states that if any specific events do not occur, the Development Agreement can be terminated. One of the specific events included in Section 5.1. (a) (v) is "an affimative vote on Proposition I by more than 50 percent of the electors voting in the general election to be held on November 6, 1990". Therefore, to avoid termination of the proposed Development Agreement, the Budget Analyst recommends that Section 5.1 (a) (v) be deleted from the proposed Development Agreement. Mr. Alec Bash also notes that Catellus can waive this provision in the Development Agreement or if Catellus does not take any action, after 90 days this provision is considered waived.

According to Mr. Alec Bash of the Planning Department, it is not likely that Catellus will obtain the necessary agreements and complete the required investigation and remediation of hazardous waste before the end of 1991. Our analysis has assumed that development will begin in 1992 and that the first significant revenues and costs to the City will occur in Fiscal Year 1992-93. Development will occur over a 20 to 30 year period and our analysis examines the estimated fiscal costs and benefits for the next 30 years.

The proposed Development Agreement has significant fiscal implications for the City. Revenues would be generated through additional taxes, primarily property taxes assessed on the new commercial and residential development. The City would incur expenditures through the additional City services that must be provided to the new neighborhood, including expenditures for half the construction costs of a new police station (with Catellus to pay the other half). The most significant cost to the City of entering into the Development Agreement would be the subsidy that the City would provide for the construction of 2,200 affordable housing units, estimated to cost $150 million net of Federal and State subsidies.

Section II: Analysis Of Mission Bay Development Agreement Housing Program

The Development Agreement is designed to produce at least 8,200 units of on-site affordable and market rate housing during the course of the project. Additionally, Catellus would provide funds for the rehabilitation of 250 affordable off-site units. The breakdown of these units is shown in the table below.

Table 1
Allocation of Catellus and City Housing Units

Catellus Share of Housing	
Market Rate Units	5,200
Affordable Units	950 *
Subtotal Catellus	6,150
City Share of Housing	
Affordable Units	2,300
Total Housing Units	8,450

* Includes 700 units on-site and 250 off-site.

The City's share of affordable housing units includes 100 units subsidized by Catellus but built by the City. Catellus' 250 off-site units are specifically designated for the rehabilitation of residential hotels for which Catellus will contribute $4 million.

The production of housing will be tied to the production of commercial development, with one housing unit (including a proportionate amount of Catellus and City affordable housing units) being produced for each 712 feet of commercial development. The Development Agreement requires Catellus to begin construction of housing within five years of the Project start date and for 2,000 units of housing, of which no less than 740 will be affordable, to be completed no later then ten years after the start date. The delivery of the City's 26 acre affordable housing development site would be accelerated after Catellus acquires the right to remove the I-280 Freeway stub so that the City receives at least two acres every four years. Once the site currently occupied by the CalTrain station becomes available to Catellus for office development, the rate of housing site delivery would then be increased to at least four acres every four years.

Catellus Affordable Units

Catellus is to build 700 on-site affordable housing units, exclusive of the 250 affordable off-site units and the 100 affordable units to be built by the City but subsidized by Catellus. Of these 700 units, Catellus has agreed to provide 250 units for those earning 120 percent of median income, 150 units for those earning 100 percent of median income and 300 units for those earning 75 percent of median income. These subsidies are contingent on the City agreeing to use its best efforts to obtain public and private grant funds to pay for development of the wetlands to be included as part of the Project. Catellus would also agree to increase its subsidies for those 700 units, to provide 350 on-site units at 100 percent of median income and 350 on-site units at 75 percent for the total 700 on-site units if, within

seven years after the start date of the Project, the necessary authorizations for the removal of the CalTrain Station located within the Mission Bay area have been received.

Using the subsidy costs calculated in this report to determine the amount of the City's subsidy, similar figures can be calculated to determine the amount of Catellus' housing subsidy (assuming Catellus' development costs are similar to that of the City's development costs). The subsidy for 250 units at 120 percent of the median income, 150 units at 100 percent and 300 units at 75 percent would be approximately $29 million while the subsidy for 350 units at 100 percent of the median income and 350 units at 75 percent would be approximately $35.6 million. When the $4 million subsidy for 250 residential units and the approximately $11 million subsidy for 100 rental units at 50 percent of the median income (calculated below) are added, Catellus' total housing subsidy ranges from $44 million to $50.6 million, exclusive of its costs of providing the City with land remediated of hazardous materials and with infrastructure in place.

City's Affordable Units

The City will develop its housing on numerous sites totalling 26 acres and will receive this land from Catellus with hazardous waste remediation complete and infrastructure in place. All of the housing will be multi-family housing. The units to be built by the City will range in size from studios to four bedroom apartments. The units will be targeted to be affordable for those earning from less than 50 percent of the median income to 120 percent of the median income (For the subsidy amounts calculated below, the less than 50 percent of median income subsidy was calculated assuming an average income of 45 percent of median income for those units). The Mayor's Office of Housing has estimated that there would be a mix of 50 percent rental units and 50 percent ownership. Based on this mix of apartment sizes, level of affordable income, and rental and home ownership units, the Mayor's Office of Housing has estimated the allocation of units as listed in Table 2 below. Although there are certain conditions framing this allocation of housing units (such as the less than 50 percent of median income units being limited for rent and not ownership), this breakdown of units has been acknowledged by the Mayor's Office of Housing as being simply an approximation of what the final housing mix could be. The Budget Analyst has analyzed the assumptions governing this allocation and has found them valid and useful as a basis for calculating the City's required fiscal subsidy.

Table 2
Distribution of City Affordable Housing Units

Unit Size	Rental Units: Affordable Income Level ≤50%*	75%*	Subtotal	Ownership Units: Affordable Income Level 75%*	100%*	120%*	Subtotal	Total All Units
Studio	252	77	329	0	0	0	0	329
1 Bedrm.	133	43	176	45	37	90	172	348
2 Bedrm.	126	62	188	74	62	149	285	473
3 Bedrm.	231	135	366	144	120	290	554	920
4 Bedrm.	57	34	91	36	30	73	139	230
Total	799	351	1,150	299	249	602	1,150	2,300

* Percent of the median income

Of the rental units listed above, 200 would be reserved for elderly tenants. 100 units of the less than 50 percent of the median income rental category units would be built by a developer selected by the City but subsidized by Catellus.

The City's subsidy for these 2,200 units (subtracting the 100 units to be built by the City but subsidized by Catellus) can be calculated by comparing the estimated development costs for each unit with the mortgage costs supportable by each income level for each type of unit. These supportable mortgage amounts have been calculated based on a certain percentage of income being available for housing costs plus making adjustments for operating or homeowner costs. The average sales prices and average rents, by income category, are shown in Table 3 below. The median income for a family of four in San Francisco as calculated by the U.S. Department of Housing and Urban Development is $45,600 as of March 5, 1990.

Table 3
Average Rents and Sale Prices per Income Category

	Average Rent		Average Sales Price		
Unit Size	50% Median	75% Median	75% Median	100%Median	120% Median
Studio	$400	$600	$43,408	$68,602	$86,693
1 Bedrm.	$458	$683	$56,045	$79,291	$99,956
2 Bedrm.	$517	$767	$63,079	$89,230	$112,479
3 Bedrm.	$567	$858	$69,333	$98,427	$124,261
4 Bedrm.	$608	$908	$72,048	$103,092	$130,065

Using these average rents and sales prices, the amount of the City's subsidy can be calculated. Table 4 below shows the total subsidy and per unit subsidy for the City housing units.

Table 4
Calculation of City Housing Subsidy

Rental Units	Studio	1 Bedrm.	2 Bedrm.	3 Bedrm.	4 Bedrm.
<50% of Median Income					
# of Units	252	133	126	231	57
Subsidy/Unit	$80,972	$102,983	$117,666	$148,244	$183,164
Total Subsidy	$20,404,944	$13,696,739	$14,825,916	$34,244,364	$10,440,348
Subtotal All <50% Units		$93,612,311			
Less Catellus Share		($11,701,539)*			
Net City Subsidy		$81,910,772			

* Catellus will provide subsidy for 100 units at less than 50 percent of median income. The Catellus subsidy is calculated as 12.5 percent (1/8) of the 800 units to be built in this category.

	Studio	1 Bedrm.	2 Bedrm.	3 Bedrm.	4 Bedrm.
75% of Median Income					
# of Units	77	43	62	135	34
Subsidy/Unit	$56,664	$75,315	$85,626	$110,545	$143,468
Total City Subsidy	$4,363,128	$3,238,545	$5,308,812	$14,923,575	$4,877,912
Subtotal All 75% Units		$32,711,972			
Total City Rental Unit Subsidy		$114,622,744			

Table 4 (continued)
Calculation of City Housing Subsidy

	Studio	1 Bedrm.	2 Bedrm.	3 Bedrm.	4 Bedrm.
Ownership Units					
75% of Median Income					
# of Units	None	45	74	144	36
Subsidy/Unit	None	$57,705	$68,671	$95,667	$130,452
Total City Subsidy	None	$2,596,725	$5,081,654	$13,776,048	$4,696,272
Subtotal All 75% Units		$26,150,699			
100% of Median Income					
# of Units	None	37	62	120	30
Subsidy/Unit	None	$34,459	$42,520	$66,573	$99,408
Total City Subsidy	None	$1,274,983	$2,636,240	$7,988,760	$2,982,240
Subtotal All 100% Units		$14,882,223			
	Studio	1 Bedrm.	2 Bedrm.	3 Bedrm.	4 Bedrm.
120% of Median Income					
# of Units	None	90	149	290	73
Subsidy/Unit	None	$13,794	$19,270	$40,739	$71,895
Total Subsidy	None	$1,241,460	$2,871,230	$11,814,310	$5,248,335
Subtotal All 120% Units		$21,175,335			
Total City Ownership Units Sub.		$62,208,257			
Total City Subsidy		**$176,831,001**			

The total subsidy that the City must provide would occur over the life of the development agreement and depend upon the rate of actual development by Catellus and the City. As shown above, approximately 65 percent ($114.6 million of $176.8 million) of the subsidy costs would go to rental units and approximately 35 percent ($62.2 million of $176.8 million) to the ownership units. It should also be noted that the subsidy of $81.9 million for the less than 50 percent of median income rental units accounts for approximately 46 percent ($81.9 million of $176.8 million) of the entire subsidy of $176.8 million.

A different mix of housing between the various income, size and ownership or rental categories would change the amount of the City's subsidy. The subsidy for the rental units is greater than those for the ownership units and if the 50-50 mix of rental and ownership were changed towards greater ownership of units, the amount of the City's subsidy would decrease. For example, if only 40 percent of the units were rental and 60 percent were owned and these changes were made

proportionately across the different unit size and affordable income categories, then the total subsidy would be reduced by $5.5 million from $176.8 million to $171.3 million. This amount could be offset to a certain degree, given that there are higher levels of Federal and State subsidies available for rental units. The City subsidy could also be reduced by building smaller units or targeting the units to a higher percentage of the median income (i.e., build more units for those at 100 percent of the median income instead of less than 50 percent).

The allocation of housing units presented above provides an overall deeper level of subsidies then contained in earlier versions of the proposed Development Agreement. Because of this "deepening" of the affordable income levels of Mission Bay housing, the Mayor's Office of Housing has estimated that the City would receive between $20-30 million over the life of the project in Federal or State grant funds. These potential Federal and State funds are estimated based on the increased number of units that would be affordable to those earning 80 percent of the median income or below. If at a later stage in the implementation of the Development Agreement the subsidy for City housing units were to be deepened further, additional subsidies would have to be provided.

As a condition of the Development Agreement, Catellus has agreed to pay $4 million to the City for the rehabilitation of 250 off-site residential hotel units. This would equal $16,000 per unit. According to the Mayor's Office of Housing a realistic current estimate of the cost of remodeling each residential hotel unit is $25,000 or a total of $6,250,000. Ms. Barbara Smith of the Mayor's Office of Housing states that the $2,250,000 balance ($6,250,000 cost less $4,000,000 Catellus subsidy) to renovate the residential hotel units would likely be available from State grant funds for the retrofitting of buildings. However, if these State grant funds are not available, the City would have to assume the additional $2,250,000 in costs. Catellus will pay their $4 million in two $2 million installments during the initial phases of the Project.

Financing of City Subsidy

The total cost of developing the City's Mission Bay housing sites is $329 million. Approximately $140 million would be provided by the owners and renters of the units and approximately $12 million by Catellus as a subsidy for 100 rental units. The $176.8 balance (rounded at $177 million) in funds would be the amount to be covered from public sources. Assuming that the Mayor's Office of Housing is able to obtain the $20 to $30 million of Federal and State grant funds towards the total subsidy of $176.8 million for the cost of the City's Housing Subsidy Program, the net cost to the City would be between $146.8 million to $156.8 million. If $150 million is assumed to be the estimate of the City's cost of the Program subsidy and the length of the Program is 30 years, then $5 million a year would be required in

City funds. A number of sources of these funds have been suggested by the Mayor' Office of Housing and the Planning Commission including:

- Increase in the Real Property Transfer Tax
- Increase in the Hotel Tax
- Bond measure
- Annual appropriation from the City's General Fund

The proposed funding sources mentioned above are all possible sources for the City's cost of its housing subsidy.

Real Property Transfer Tax

The Budget Analyst previously prepared a report analyzing what increase in the real property transfer tax would be needed to raise $15 million annually. Our report concluded that the real property tax rate would have to increase by approximately 49 percent from the current $2.50 per $500 consideration of value to $3.73 per $500 consideration of value. This assumes that the rate increase would be combined with the deletion of the exemption for assumed indebtedness. A proposed ordinance to increase the Real Property Transfer Tax rate by this amount with the deletion of the exemption for assumed indebtedness was rejected by the Board of Supervisors on September 17, 1990. Another proposed ordinance to increase the real property tax rate from $2.50 to $5.00 per $500 of property value was also rejected by the Board of Supervisors.

However, on October 15, 1990 the Board of Supervisors approved an ordinance to delete the provision for assumed indebtedness from the City's real property transfer tax. How much the tax rate would need to be increased to specifically raise $5 million annually for Mission Bay Housing would depend on the actual rate at the time of the proposed increase and the amount of revenues the real property tax rate was currently raising.

Hotel Tax

The City's Hotel Tax is currently 11 percent. Of the eight percent portion of the total 11 percent tax rate that goes to the Hotel Tax Fund, 6.23 percent less $60,000 goes to low income housing development plus another additional flat sum of $100,000 is allocated for low income housing. In the Fiscal Year 1990-91 budget, these two sources are estimated to receive $3,113,465. The Budget Analyst has previously estimated that each one percent increase in the overall Hotel Tax generates an estimated $6,166,663 annually. It would not be practical to increase the Hotel Tax to fund the City's Mission Bay Housing Program alone through the Hotel Tax Funds that are allocated to low income housing because the tax rate would have to increase by more than 150 percent from 11 percent to over 27 percent and these funds are limited to providing low cost housing for senior citizens. However, to provide funds for affordable housing through a simple increase in the

11 percent Hotel Tax, given that each additional one percent increase in the Hotel Tax would raise $6,166,663, the Hotel Tax rate would need to be increased by approximately .8 (.008) percent to raise the $5 million annual subsidy for the City's Mission Bay housing program or by approximately 2.4 percent to raise the $15 million for the Housing Affordability Fund. On November 13, 1990, the Board of Supervisors rejected a proposal that would place a two percent General Fund surcharge on the Hotel Tax to raise the rate from 11 percent to 13 percent.

Bond Measure

Ms. Smith reports that the Mayor's Office of Housing is not currently pursuing a bond issue as an alternative for funding the City's Mission Bay housing subsidy. Ms. Smith adds that the Federal tax exempt requirements for general obligation bonds make it difficult to issue tax-exempt bonds for housing projects that are going to occur over extended periods of time and that taxable bonds are not necessarily the most efficient way to raise the funds for the City's subsidy.

Housing Program Administration

Under the terms of the Development Agreement, the Mayor's Office of Housing (or its successor) would administer the City's Mission Bay Housing Program. The Mayor's Office of Housing would have responsibility for:

- Reviewing the development of affordable housing units to assure compliance with the Development Agreement.

- Preparing an annual report on the status of the housing development which will report whether the goals in the financing and development plan are being met and identify the Mission Bay Housing Budget necessary to meet the goals of the financing and development plan in the succeeding two-year period.

- Selecting the developers for each housing site through preparation and distribution of RFQs and RFPs, reviewing Development Proposals, and exclusive negotiations for the purpose of entering into an agreement.

To assist the Mayor's Office of Housing in administering the Housing Program, the Mission Bay Housing Advisory Group would be established, consisting of City-funded non-profit housing corporations and representatives from appropriate City departments. Ms. Smith states that there would be additional annual costs of $30,000 for the Mayor's Office of Housing to manage the Mission Bay Project.

The Development Agreement specifies the steps the Mayor's Office of Housing must follow in developing the City's share of housing, assures the continued affordability of the housing units and sets other conditions regulating development for the City's housing units. After the City has received title to the housing parcels, the Mayor's Office of Housing will select developers through a three step process: Request for Qualifications (RFQ), Request for Proposal (RFP),

and developer selection. When an individual developer is selected, then the Mayor's Office of Housing will negotiate a development agreement or a disposition and regulatory agreement for the transfer of the land which will include provisions of the estimated costs of the project, the affordability of housing, the limits of liability etc. According to Ms. Noreen Ambrose of the City Attorney's Office, these individual development agreements or disposition and regulatory agreements would be subject to approval by the Board of Supervisors. This provides the Board of Supervisors with the authorization to review the City's development of Mission Bay housing sites over the term of the Mission Bay Development Agreement.

Section III; Cost and Revenue Effect on City Budget

The Budget Analyst conducted an analysis of the costs and benefits that would accrue to the City if the Mission Bay Development Agreement is enacted. The January 1990 financial model of the Mission Bay Project conducted by Economic and Planning Systems, Inc. (EPS), which details potential sources of City revenues and costs, was used as a reference source in conducting our analysis. In response to a special request by the Board of Supervisors, the Budget Analyst also provided additional detailed information on Mission Bay's fiscal impacts to the Board of Supervisors on November 3, 1990.

The Budget Analyst's analysis indicates that the total cost/benefit to the City of entering into the Mission Bay Development Agreement would be $217 million and the net benefit, when the $150 million cost of the City's housing subsidy is included, would be $67 million. Our analysis assumes that the City's housing subsidy would be required during the first year of the Mission Bay Project (Fiscal Year 1992-93) and would continue for the next 30 years. This subsidy would be offset by the small amount of revenues earned during the initial years of the Project, leading to a negative cash flow. Our analysis indicates that it would not be until the thirteenth year of the Project (Fiscal Year 2004-5) before the City began to see a net positive cash flow from Project revenues and that this initial shortfall would total approximately $29 million. Consequently, Project revenues to the City over the last 18 years of the agreement, net of the City's housing subsidy costs, would total approximately $96 million. It should also be noted that our analysis was limited to the estimated 30 year project buildout period which is also the length of the City housing subsidy. In the years beyond this 30 year period, the City would continue to accrue tax revenues and incur costs but these sums would no longer be offset by the amount of the housing subsidy.

It is important to note that this analysis examines the cost and benefits to the City of the Mission Bay Project itself. The goal was to determine if entering into the Development Agreement would lead to increased revenues and costs to the City. The estimated benefit of $67 million does not mean that the City will see a net increase in City revenues in this amount or that the revenues and costs discussed below will be net City revenues or costs. This will depend on to what degree the Mission Bay Project results in actual increases in City residents and employees. The financial model developed by EPS and evaluated by the Budget Analyst assumed an increase in City population by the full amount of Mission Bay

residents (estimated to be 16,400) and an 85 percent increase in new City employees (19,550 of the estimated 23,000 new jobs). If these numbers are offset by a decline of residents or employees in other sections of the City then the actual revenues and costs to the City would be different. The financial analysis of the Mission Bay Project was conducted to determine if the Project itself made economic sense for the City.

Our total cost/benefit figure of $217 million without the housing subsidy costs is very close to the benefits of $215 million estimated by EPS. This is appropriate because the Budget Analyst did not attempt to replicate the work conducted by EPS but to evaluate and, in some cases, update, the assumption and figures that were utilized. We found that, with very few exceptions, the assumptions were correct and verifiable by the appropriate City department representatives. Our analysis includes additional revenues from several sources (such as the Business Tax Registration Fee which was not included in the EPS analysis) and additional costs identified by the various City departments that were contacted. Additionally, we updated the dollar figures and City department cost estimates to reflect 1990 costs. The net change in these additions, however, was to produce a total benefit figure of $2 million higher than EPS's estimate.

It should be noted that EPS provided an updated analysis of the January 1990 report to the Board of Supervisors Select Committee on Mission Bay Development on November 1, 1990. EPS's updated analysis reflects a benefit, without the housing subsidy, of $218 million, or $1 million higher than the Budget Analyst's estimate.

Project Revenues

The most significant source of Project revenues are property tax revenues that would accumulate to the City as land is developed and through appreciation of property that changes hands. Using land valuation rates considered conservative by the Assessor's Office and assuming an equal rate of development each year, the City would receive almost $368 million in property tax revenues over the next 30 years. This sum would represent over 60 percent of the total revenues of approximately $612 million that the City would receive from the Project. Other funds that the City would receive include additional local taxes such as payroll and gross receipts taxes, State subventions, licenses and fines and charges for current services.

Project Costs

Since most of the Project infrastructure and development costs are being paid for by Catellus, the City's financial obligations are limited to those incurred by City departments to provide services to the new residents and employees in the Project area. These costs have been estimated in the financial model at approximately $395 million for the next 30 years. These costs have been calculated in two ways. For those departments which are expected to incur significant operating costs, department representatives were contacted to verify and update estimates included in the EPS analysis or to determine what the estimated costs

would be. This method was followed for the Police Department, Fire Department, City Planning, Recreation and Park, Social Services and Municipal Railway. These departments alone account for approximately 58 percent or $231 million of the $395 million in estimated City department costs.

For other City departments a per capita estimation method was utilized. This method determined the current cost of providing general government services to the City's residents and employees and allocated those costs based on the number of new employees and residents that would be living or working in Mission Bay. In our initial report, the Budget Analyst had questioned whether this was an accurate way to estimate City department costs. It is not accurate if one assumes that costs estimated in this fashion would result in actual City costs of this magnitude. This is because City population and employees are only two factors impacting department budgets, and Mission Bay may not result in such significant net increases in total City population and employees. The per capita method, however, can be used appropriately for an evaluation of the cost of the Mission Bay Project itself. The assumption being used is that Mission Bay would contain a population of 16,400 residents and 19,550 new employees and given the current cost of providing services to City residents and employees, this is what providing the same per capita level of services would cost. Again, the distinction must be made that these are estimates for the Mission Bay Project itself and the actual costs to the City would differ.

The Budget Analyst notes that the Planning Commission has approved several resolutions relating to the finances of the Mission Bay Project. These resolutions recognize that the City will receive a fiscal surplus from the Mission Bay Project and recommend that the Board of Supervisors allocate funds from these surpluses for affordable housing and economic development.

Imposition of Fees

The Development Agreement contains provisions defining what existing or future City development fees could be charged to Catellus. Basically, Catellus would be exempt from any new development fees until five years after the effective date of the Agreement. Catellus would be exempt from any increase in existing fees until 15 years after the start date of the Mission Bay Project, with the exception of Transit Impact Development Fees (TIDF) and Child Care Fees (see following information on Mission Bay Funds). Catellus would be exempt for the life of the Agreement from the imposition of any fees that are considered "redundant" of current fees. Redundant fees are defined in the Development Agreement as fees for which a current fee already exists for a similar purpose or the fee would duplicate a community facility or public improvement provided by Catellus as part of its obligations under the Agreement. An example of a redundant fee would be if the City at some point in the future decided to implement a development fee for police protection. Catellus would be exempt from this fee because it would be considered redundant since Catellus had agreed to provide funds for the construction of a new police station.

The Budget Analyst agrees that the public improvements and services to be provided by Catellus as part of the Development Agreement should provide some protection from the imposition or raising of City development fees. However, the Budget Analyst does not believe that Catellus should be exempt from fees considered "redundant" for the life of the Development Agreement (a period of up to 40 years). If at some point in the future the City decides to adopt new planning fees, Catellus should not be exempt from those fees simply because it has provided a concession to the City at an earlier date. The Budget Analyst recommends that the Development Agreement be amended to allow Catellus an exemption from any redundant fees for the first 15 years from the start date (similar to the provision for existing fees) and then be subject to fees determined to be redundant to the extent that the new fee would exceed Catellus' previous obligation. Using the police service fee example stated above, after 15 years Catellus would be required to pay the new development fee for police protection to the extent that the charges for that fee exceeded previous payments for the new police station.

Mission Bay Funds

The Development Agreement would establish two segregated accounts for certain fees paid by Catellus. These two accounts would be the Mission Bay Economic Development Fund and the Mission Bay Child Care Fund. The Economic Development Fund would be funded through an initial contribution of $2.5 million by Catellus and would receive up to an additional $11.4 million based on a contribution by Catellus for each square foot of office space developed. The monies from the Economic Development Fund would be utilized to encourage MBE/WBE/LBE participation in the Mission Bay Project during construction and operations, generate employment opportunities for minorities, women and economically disadvantaged City residents and create a mechanism to ensure MBE/WBE/LBE development in the City. The Economic Development Fund would receive policy guidance from a newly created Economic Development Program Board and the funds would be administered and distributed by the Mayor's Office of Business and Economic Development (MOBED).

The Child Care Fund would receive at least $2.4 million from Catellus and up to an additional $2.1 million for the establishment and provision of services for child care centers within Mission Bay. In addition, Catellus would provide at least 15,500 square feet for child care. The Mayor's Office of Child Care, working in conjunction with the Mayor's Advisory Council on Child Care, would determine allocations from the Child Care Fund.

The Budget Analyst notes that, over the course of the Mission Bay Project, the Economic Development Fund could expend up to $13.9 million and the Child Care Fund up to $4.5 million. Under the provisions of the Development Agreement, expenditure of these funds may not be subject to approval of the Board of Supervisors. In fact, the Development Agreement specifically states that the initial $2.5 million by Catellus would be established in a restricted account to be maintained by the Mayor's Office of Economic Development . . .independently of the City's budgetary process for ready access. Given the significant expenditures that would be allocated from both these funds, the Budget Analyst recommends

that the Development Agreement be amended to require that all annual appropriations from both the Mission Bay Economic Development Fund and the Mission Bay Child Care Fund be subject to prior approval by the Board of Supervisors.

Section IV: Hazardous Materials Remediation Costs

Because of its long history as an industrial site, significant quantities of hazardous materials may be present in the Mission Bay Project area. The costs of cleaning up these materials may be substantial but until a detailed subsurface investigation of the site is completed, and any necessary remediation plans are proposed, such costs cannot be fairly estimated.

The cost of the investigation and remediation of hazardous materials in Mission Bay will be borne entirely by Catellus except for clean-up required for China Basin Channel sediment and certain Port property. The Development Agreement requires that Catellus investigate and remediate hazardous materials prior to the initiation of any development. This requirement means that all City housing sites, parks, and community facilities would be given to the City adequately remediated for the intended use. Catellus' site investigation and remediation plans for each site within Mission Bay must be approved by the State regulatory agency with jurisdiction over the clean-up. To secure Catellus' promise to perform, Catellus has agreed to obtain financial security prior to initiating the work in the sum of $30 million.

The City will share equally the investigation and remediation costs with Catellus, if necessary, in the case of China Basin Channel and the property occupied by H&H Ship Service Company. Although no definitive study of the Channel has been done, it is likely, given previous uses of the Channel, that hazardous materials are present in the sediments in the Channel. According to Ms. Elaine Warren of the City Attorney's Office, State Legislation requiring the San Francisco Bay Area Region Water Quality Control Board to set standards for San Francisco Bay sediment and identify areas needing remediation makes it likely that at some point in the future the City will be directed to investigate and, if necessary, remediate Channel sediment. If this does occur, the costs would be shared by the City and Catellus. Ms. Warren adds that Catellus' agreement to pay half the Channel clean-up costs only relates to the sediments in the Channel and not water quality. If the City is forced to clean-up the Channel because of issues related to water quality, then the City would have to pay the full costs.

Provided that, for whatever reason, H&H Ship Service Company does not perform all required remediation of its leased property, the responsibility for cleaning-up hazardous materials will be split equally between the City and Catellus, assuming that H&H Company vacates the site it presently occupies. According to Ms. Warren, H&H Company may continue to occupy some of its current space. If this occurs, the costs of clean-up may be renegotiated by Catellus and the City.

No cost estimates have been developed for the cost of investigating and remediating the China Basin Channel or the H&H Company parcel. Ms. Warren reports that the City's share of costs for Channel sediment remediation would likely be shared by the City's General Fund and the Port of San Francisco, although the actual percentages to be paid by each party have not been determined. Clean-up costs associated with the H&H Company parcels would be borne by the Port. The City as well as Catellus both retain their right to attempt to recover the costs of the clean-up from any other legally responsible firms that can be identified as having disposed of the wastes present at the Mission Bay site.

Section V: City's Annual Review of Mission Bay Project

The terms of the Development Agreement would be reviewed annually to make a formal determination that Catellus and the City have complied with the terms of the Agreement. The Planning Commission on October 4, 1990 adopted an ordinance that would amend provisions of Chapter 56, which pertains to the adoption of development agreements, to require that this annual review occur during the second week of January each year regardless of when the development agreement was actually approved. This would allow budgetary information generated as part of the compliance review to be considered during the City's annual budget process. This proposed Planning Commission ordinance is subject to approval by the Board of Supervisors.

The City's review of Catellus' annual compliance with the Development Agreement would be conducted by the Chief Administrative Officer (CAO) and the Director of City Planning. If the Director of City Planning and the CAO both certify that Catellus has complied with the Development Agreement, then a public presentation would be made to the Planning Commission. and if no member of the Board of Supervisors or the Planning Commission requests a hearing to review the documentation certifying compliance, a certificate would be granted. If a hearing is requested by a member of the Board of Supervisors or the Planning Commission and the Planning Commission determines that Catellus has complied with terms of the Development Agreement, then a certificate of compliance would be issued. This determination of compliance would be reported to the Board of Supervisors but not be subject to approval by the Board of Supervisors.

Should the Director of City Planning and the CAO determine that Catellus has not complied with the terms of the Development Agreement, a public hearing would be held before the Planning Commission to present the evidence of this non-compliance. If it is ultimately decided by the Planning Commission that Catellus is not in compliance and that proceedings need to be taken to modify or terminate the Development Agreement, then the Board of Supervisors would have the authority to approve either action. The Development Agreement and Chapter 56 of the Administrative Code are structured to provide the Board of Supervisors with the authority to disapprove the annual certificate of compliance but not the authority to approve the annual certificate of compliance. Further discussion of this point is contained in Point 3 in the Comments and Recommendation section below.

Under the terms of the Development Agreement, by October 1 of each year, the CAO and the Director of City Planning would notify the Mayor and the head of each City department affected by the Mission Bay Project of the activity that is expected during the upcoming year that will generate fees or costs. Each department would then have to include in its budget the projected financial and staffing needs related to implementation of the project. This information would be available to either the Board of Supervisors or the Planning Commission, as necessary, for purposes of the annual compliance review. The Mayor's Office would then provide a summary annual report detailing how budget needs specifically arising from the Mission Bay project are being addressed. As mentioned above, the Mayor's Office of Housing would also provide a separate annual report on the status of the housing development, including the budget for the succeeding two-year period.

The Development Agreement is structured to allow major and minor modifications to the terms of the Agreement. Major modifications, which are specified as including changes in most significant areas of the Agreement, such as permitted uses of the subject property, the restrictions governing affordable housing and the duration of the agreement, would be subject to approval by the Board of Supervisors. Minor modifications would be subject to approval by the Board of Supervisors if a member of the Board of Supervisors has requested a hearing on the proposed change. The agreement would also allow technical changes to the Agreement through the implementation of Operating Memoranda. These Operating Memoranda are not intended to result in significant changes to the provisions of the Development Agreement but to provide the City and Catellus with a method to implement technical changes to those provisions.

Section VI: Comments and Recommendations

1. As stated above in Section III, the Budget Analyst calculates that the total cost benefit to the City of entering into the Mission Bay Development Agreement would be $217 million and the net benefit, when the cost of the City's housing subsidy is included, would be $67 million. These amounts are reflective of a financial evaluation of the Mission Bay Project itself and should not be interpreted as being the actual new revenues that the City would be receiving.

2. As noted above in Section II, the Mayor's Office of Housing would be given the authority to negotiate and select developers for the City's Mission Bay housing sites. These individual agreements would then be subject to review and approval by the Board of Supervisors which would provide the Board of Supervisors with authority to review the City's development of Mission Bay housing sites over the term of the Mission Bay Development Agreement.

3. As stated above in Section V, the Board of Supervisors would have the authority to terminate the Development Agreement arising from a determination that Catellus is not in compliance with the Development Agreement but would not have the authority to approve the annual certificate of compliance. The Development Agreement is consistent with Chapter 56 of the Administrative Code which was established to avoid the situation where the Planning Commission approved granting a certificate of compliance and then the Board of Supervisors voted against granting the certificate. Since the hearing before the Planning Commission is an evidentiary hearing, the City could be subject to legal action if the Planning Commission made one decision based on the evidence and the Board of Supervisors made a conflicting decision. However, the Board of Supervisors is therefore denied an opportunity to annually certify that Catellus is in compliance with the Development Agreement. The Budget Analyst notes that the Development Agreement and similarly Chapter 56 of the Administrative Code could be amended to provide the Board of Supervisors with the authority to review the Planning Commission decision as to whether or not a certificate of compliance be granted. However, since this could require the Board of Supervisors to conduct an evidentiary hearing to decide whether Catellus is in compliance, the Budget Analyst considers that such a decision is a policy matter for the Board of Supervisors.

4. It is provided in the proposed Development Agreement that a separate accounting would be made by the Mayor each year of budget costs associated with the Mission Bay Project and that the housing program would be included in that accounting. The Budget Analyst recommends that Exhibit A-1 of the Mission Bay Development Agreement, which details the housing program component of the Development Agreement, be amended to specifically include language that annual appropriations for the development of the City's Mission Bay housing program, whether from the General Fund or from any separately established funds, be subject to prior approval by the Board of Supervisors.

5. The Budget Analyst recommends that the Development Agreement be amended to allow Catellus an exemption from any redundant fees for the first 15 years from the start date (similar to the provision for existing fees) and then be subject to fees determined to be redundant to the extent that the new fee would exceed Catellus' previous obligation or payments. The present Agreement would exempt Catellus from such fees for up to 40 years.

6. The Budget Analyst recommends that given the significant expenditures that would be allocated from the Mission Bay Economic Development Fund and the Mission Bay Child Care Fund, the Development Agreement should be amended to require that annual appropriations of all monies from both Funds be subject to prior approval by the Board of Supervisors. Under the present Agreement, such funds would not be subject to review and approval by the Board of Supervisors.

7. The Budget Analyst recommends that Section 5.1. (a) (v) be deleted from the proposed Development Agreement. Section 5.1. (a) (v) allows the termination of the Development Agreement since Proposition I was not approved by the voters on November 6, 1990.

Harvey M. Rose

cc: Supervisor Hongisto
Supervisor Gonzalez
Supervisor Alioto
Supervisor Hsieh
Supervisor Ward
President Britt
Supervisor Hallinan
Supervisor Kennedy
Supervisor Maher
Supervisor Nelder
Supervisor Walker
Clerk of the Board
Legislative Policy Analyst
Chief Administrative Officer
Controller
Carol Wilkins
Ted Lakey

0.755
12/90

CALENDAR

SPECIAL MEETING OF THE

SELECT COMMITTEE ON MISSION BAY DEVELOPMENT

BOARD OF SUPERVISORS

CITY AND COUNTY OF SAN FRANCISCO

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Wednesday, December 12, 1990 - 2:00 p.m. Legislative Chamber, 2nd Floor, City Hall

Members: Supervisors Hongisto, Gonzalez, Alioto, Hsieh and Ward

Clerk: Joni Landry

1. File 255-90-7. [CEQA Findings] Resolution adopting and incorporating by reference the Mission Bay Findings approved by the City Planning Commission by its Resolution No. 12040 and the findings approved by the Port Commission by its Resolution No. 90-99, and adopting further findings pursuant to the California Environmental Quality Act, including a finding of the overriding benefits of the Mission Bay Project. (Supervisor Hongisto)

   Action:

2. File 97-90-63. [Development Agreement] Ordinance amending Administrative Code by amending Sections 56.8, 56.14, 56.15, 56.16 and 56.17 clarifying the notice provisions and conforming to the Mission Bay Development Agreement. (Supervisor Hongisto)

   Action:

3. File 97-90-64. [Development Agreement] Ordinance amending Administrative Code by amending Section 56.17(e) to permit the Board of Supervisors to review a Planning Commission determination to issue a Certificate of Compliance. (Supervisor Hongisto)

   Action:

lect Committee on Mission Bay Development
ard of Supervisors
ty Hall, Room 235
n Francisco, CA 94102